INTRODUCTION

The first few years of the twenty-first century witnessed a global economic boom and a dramatic increase in the intensity and extensity of global economic integration. It was no coincidence that this period also saw a wave of highly optimistic, liberal diagnoses of globalization and its consequences. As Bisley (2007:16) remarked ‘the supporters of a largely economic version of globalization and those who present it as a positive and universal force are, at present, largely in the ascendancy.’ The eminent economist Jeffrey Sachs (2005), for example, recently argued that the latest dramatic round of globalization represents a momentous transition from an era of world economic divergence and North Atlantic dominance that prevailed between 1750 and 1950, to process of convergence. He suggests that the forces of divergence unleashed by the first industrial revolution and reinforced by colonialism have finally been superseded as globalization diffuses ideas and technological capacity. The opening of previously closed economies and the adoption of liberalization policies in China, Russia and India have roughly doubled the size of labour force in the integrating world economic system (Venables, 2006). On current trends, by 2025 the Chinese economy measured by GDP will be larger than that of the US and by 2050 that of India will also be larger. According to Sachs (2005:187), ‘The overwhelming dominance of the West, which lasted half a millennium, is probably passé’. In this view, the integration of trade, production, finance and the spread of global treaties and conventions acts to spread economic growth through the diffusion of technologies to those countries that adopt open liberal economic policies. In similar fashion Wolf (2004) celebrated the benign consequences of liberal globalization, which in his view provided a golden opportunity for growth and poverty reduction. While Wolf conceded that global finance was somewhat different from trade, he nevertheless asserted that the liberalization of money flows was also desirable. Finally, in a more populist and extreme version of this liberal optimism, Friedman (2006) identified a historical turning
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point involving the emergence of a worldwide creative and collaborative network or platform. In a typically brash and hyperbolic phrase he argued, "This platform now operates without regard to geography, distance time, and, in the near future, even language. Going forward, this platform is going to be at the centre of everything" (ibid., 205).

In the light of the recent turbulence in the world economy, some of the claims of this liberal optimism have quickly been exposed as exaggerations and statements of faith. But what processes generated these ideas, and what remains of this interpretation of the consequences of economic globalization? In some contrast, economic geographers have been far more cautious and ambivalent about the implications of globalization. It may be true that, with some notable exceptions, economic geographers have made only a limited contribution to globalization debates (Dicken, 2004). Nevertheless their lower profile and hesitant evaluation of globalization has better withstood the test of time. By the late 1990s geography came to a something of a consensus regarding the first principles shaping the complex outcomes of globalization (see Coe and Yeung, 2001). This insisted that economic globalization is a profoundly contradictory set of processes that have much more uneven and indeterminate dynamics than an underlying structural trend to convergence would imply. As Dicken et al. (1997) argued, globalization is a complex of inter-related processes which are not free floating but constituted through these economic and institutional contexts. As with all processes, globalization is realized unevenly, interacts in unpredictable ways with counter- and co-functioning processes and melds in a complex and contingent fashion with extant (historically and geographically specific) institutional and economic structures" (ibid., 166). Thus the continued importance of place and territory is not a refutation of globalization, as processes at different scales are interactive rather than alternatives (Kelly, 1999).

The aim of this chapter is to argue that, despite the appearance of new and intensified forms of globalization, this geographical interpretation remains a more helpful and convincing starting point for understanding their consequences than versions of the liberal transformation model. Liberal economic accounts of globalization certainly appreciate the immense significance of the geographical changes involved in the growth of China and the other large industrializing economies. However, underlying these ideas is the notion that global market integration must eventually generate some sort of spatial equilibrium in which opportunity, income and prosperity eventually converge. While globalization undoubtedly has both beneficial and detrimental dimensions, this chapter argues that there is little evidence to suggest that recent developments in the forms of economic globalization represent the start of a process of global convergence. The belief that economic globalization means a movement to a flat equilibrium is highly optimistic and over-generalized and underestimates the importance of several key themes in the geographical literature.

The first of these themes is that globalization is a deeply contradictory creature as it acts to erode some geographical differences at the same time as it builds new forms of agglomeration and localization (Bisley, 2007). As Storper (2003) has argued, we should recognize the resolute significance of an economy of territories or places, composed of institutions and connections at local, regional and national scales, as well as the massively increased economy of global flows and networks. Using the example of outsourcing and supply chains, the chapter argues that both types of economy are changing but this does not mean that one is superseding or replacing the other. The second relevant theme in geographical discussions of economic globalization is that the regulatory or governance context, at various scales, exerts a key influence on its outcomes (Harvey, 2006). Despite the growth of non-state and network forms of governance, nation-states, both individually and collectively, continue to be a core component of
this context, even as their forms and functions have been changed by globalization and its powerful constituent discourses (Kelly, 1999; Huy, 2008; Yeung, 1998). In this way, the outcomes of globalization are politically negotiated and mediated (Tickell and Peck, 2003).

As a consequence of these fundamental points, recent economic globalization has amplified key instabilities and vulnerabilities which are downplayed in liberal visions of opportunity and convergence. Given capitalism’s constant innovation and search for profit, it is well known that its geography is marked by an incessant spatial form of creative destruction in which regional and urban economies rise and fall (Stopper and Walker, 1989). However, this tendency has been intensified by the fast motion and connectivity of the contemporary global economy. In the context of a neo-liberal, market-friendly regulatory framework, economic globalization has created and amplified certain engines of instability which produce volatile crises and recessions which cascade across highly interconnected and permeable economies. The third section of the chapter outlines how the expansion of global finance and credit, and its interaction with trade circuits, has created an intensely powerful source of instability. The growth of production networks and new territorial agglomerations has taken place within a particular configuration of trade and financial systems that, ironically, has been termed ‘supercapitalism’ (Reich, 2008). The tumultuous financial crisis between 2007 and 2009 brought this period to an abrupt and costly halt so that the future geography of globalization will be much more uncertain and complex than a process of global dispersion.

UNBUNDLING AND RE-TERRITORIALIZATION

It is now well known that the last few decades of the twentieth century witnessed a spectacular integration of the global economy through flows of goods, capital, ideas and, to a lesser extent, people. Between 1950 and 2000 world merchandise trade increased almost twenty-fold (Dicken, 2007). Foreign direct investment (FDI) has increased markedly in recent years, with most of this increase taking place via mergers and acquisitions. An estimated 73 million workers were employed in foreign affiliates of MNCs in 2006, nearly three times more than in 1990. In 1982, inflows of FDI totalled $59 billion; by 2006 they had grown to $1,306 billion, the second highest annual total ever recorded, the peak total being $1,411 billion in 2000 (UNCTAD, 2007). Of the total stock of world FDI, just over 70% is located in the developed world. However, FDI inflows to China have increased to over $60 billion during the last few years (Thun, 2008).

These rapid increases in trade and multinational investment were, of course, a product of falling transport and communication costs, as well as the liberalization and opening of many economies. The increasing use of 40 foot shipping containers has been particularly important and by 2005 more than 3,500 cargo ships crossed the seas loaded with 15 million containers (Reich, 2008). At the same time, internet-based communication allows the near instantaneous transmission of complex codified information at very low cost. Together these changes have facilitated the rise of a new form of globalization. Baldwin (2006) describes this as a new industrial revolution, based on the unbundling of factories and offices into finely resolved tasks that can be widely spread across space.

The integration of trade has gone hand in hand with the disintegration of production (Feenstra, 1998). Disintegration produces the growth of outsourcing so that tasks previously performed within firms are now being purchased via a market relationship. This has involved the splitting up or fragmentation of activities and their purchase of goods and services from suppliers rather than their in-house supply or manufacture. Where outsourcing transfers jobs from one country to another it is also frequently labelled
‘offshoring’ (Grossman and Rossi-Hansberg, 2006). The effect is to break-up the production process so that the many tasks required to manufacture goods or provide services are performed in several different locations. Tasks are separated in time and space so that, in one sense, countries are trading in tasks which constitute a production or value chain rather than the discrete goods or services that are produced through such chains. Trade in parts and components has been growing rapidly and is now reportedly 30% of total manufacturing trade (Venables, 2006). Sturgeon (2002) argues that this has led to a new system of manufacture which he terms modular production networks. In this system, lead firms have cut their costs, increased their flexibility and spread the risks of market volatility by contracting their production to large and capable ‘turn-key’ suppliers with generic manufacturing capabilities. Friedman (2006) provides the example of a Dell laptop computer which involves sourcing of components by 30 companies involved with about 400 suppliers located in North America, Europe but primarily Asia. Another example is the Apple fifth generation i-pod, which is assembled in China by Taiwanese manufacturers. Three of its 10 most costly components are from Japan, two from the US, three from Taiwan and one from Korea (Linden et al., 2008). While the scale of outsourcing is notoriously difficult to establish, according to some estimates, three million US manufacturing jobs were lost as production migrated abroad between 1977 and 1998 (Harrison and McMillan, 2006 cited in McGrew, 2008).

The latest round of globalization has been distinctive in the way in which it has seen the rise of global production networks or global value chains in which leading firms control networks of suppliers (Gereffi, 2005). This produces a growing functional integration of the global economy (Henderson et al., 2002; Dicken, 2007). It has been closely associated with the growth of manufacturing in some developing countries, as the extension of global production networks has dovetailed with reforms that have reduced trade barriers and converted economies to a market focus. According to Friedman (2006) the expansion of global supply chains represents one of the key forces behind the appearance of a flat world. He argues that ten forces have “flattened” or shrunk the world in economic terms, including the birth of the internet, the development of workflow software, outsourcing and off-shoring, and advances in communication technologies. Rapid technological advance and the spread of ideas have led to the emergence of economic markets that are contestable across the globe. Companies face less friction in allocating tasks to anywhere in the world. In short, Friedman envisages a new economic model based on an open access platform in which people, irrespective of their location, have an unprecedented opportunity to connect and collaborate.

Even in an age of outsourcing, however, this flat world prediction is both an exaggeration and a misperception. It is beyond doubt that developing countries have become important exporters of manufacturing goods in recent years. However, exports of manufactures are highly concentrated in around a dozen economies which include the Asian tiger economies, China, India, and Mexico. In 1996 the top 10 developing country exporters accounted for 88% of developing country manufactured exports (Lall, 1998). The new global distribution of supply chains is in fact more limited than accounts such as Friedman’s suggest (Dicken, 2007). As Storper (2003) argues, two types of forces continue to produce spatial concentration of economic activity in the global economy. The first are ‘distance to market’ effects and the second are linkages and externalities including both traded and untraded relationships between firms. I address each in turn below.

A wave of strong critical reaction to Friedman has stressed that distance remains stubbornly important to international trade and that distance to market and the costs of overcoming distance are still significant. While the freight costs of shipping goods
may be as low as 4% of their import value, the gravity model of trade is remarkably persistent so that most countries continue to trade more with their neighbours. The mean effect of distance on trade is about 0.9 which implies that a 10% increase in distance leads to a 9% reduction in international trade flows. Moreover, statistical reviews provide no evidence that this distance effect has weakened in the second half of the twentieth century (Brakman and van Marrewijk, 2007; Dizard and Head, 2008). Hence, on some measures the regionalization of trade within the triad of North America, Europe and East Asia has been more important than the growth of inter-regional trade (Hay, 2008).

Part of the reason for this is that perishability and obsolescence mean that the value of many products declines with the time taken to get them to market. Another reason is that the value of a product, such as a complex instrument or engineering tool, depends on information associated with the product (Leamer and Storper, 2001). If this information is embedded in individual people then the costs of shipping it may actually have increased because of rising airport and traffic congestion. Trade costs are also shaped by the frequency and complexity of exchanges so where many firms are disintegrated and externalized trade costs may actually have risen rather than fallen (McCann, 2008).

The second set of effects that mean that the flat world is an illusion are the upstream linkages and externalities associated with agglomeration. Leamer (2007) argues that contestability has increased in recent decades only in sectors characterized by mundane codifiable work. Routine tasks, whether cognitive or manual, are much more susceptible to off-shoring because they can be well-described in rules and symbols, whereas other types of task cannot be captured in a rules-based logic. In many other economic sectors markets continue to be negotiable and embedded in personal relations between people, therefore, high value added activities in services and manufacturing continue to cluster in high wage, high cost locations (McCann, 2008). Tasks that require codifiable information are easy transferred because the knowledge can be expressed in a symbol system. However, tasks that require tacit knowledge based on complex non-codifiable messages are best communicated in face-to-face interchange where visual contact helps to build and maintain personal relationships (Leamer and Storper, 2001). This tends to suggest that there are limits to outsourcing. While it is dominant in some consumer goods markets, most US studies estimate that only 10–20% of the labour force is currently employed in jobs that could be offshored (Baldwin, 2006). Furthermore, tentative attempts to measure the scale of jobs involved so far report relatively small percentages of total employment (Kirkegard, 2007).

As noted earlier, paradoxically the growth of globalization promotes new forms of place-specific territorial connections and relations, and part of this involves the building of new spaces and clusters of industries. As Scott and Storper (2003) argue cities and urban areas can economize on capital intensive infrastructures and thereby benefit from economies of scale. Second, the backward and forward inter-linkages of firms in cities and regions are important sources of productivity gains. Third, the formation of dense local labour markets around multiple workplaces allows firms to raise their productivity and allows workers to raise their incomes. Partly as a result of these effects, globalization has been closely related to the accelerating pace of urbanization and the expanding size of megacities in many countries (Van der Ploeg and Poelhekke, 2008). By 2015 it is projected that 600 million people will live in approximately 60 cities with populations greater than 5 million (Kraas, 2007). Spatial economic disparities in many economies have risen (Kanbur and Venables, 2007). One of the major forces behind this is that each type of global offshoring and network expansion has been associated with the growth of types of regional agglomeration and re-territorialization.

Initially the fragmentation of production generated the first stage of export-oriented
industrialization and the growth of labour-intensive assembly jobs in low wage economies. Such jobs were often located in export-processing zones (EPZs) established to attract foreign direct investment through the provision of infrastructure, tax concessions and streamlined administrative procedures. In 1975 there were close to 80 EPZs in 25 countries but by 2002 there were 3000 in 116 countries. However, China accounts for 70–80% of the total EPZ workforce of 43 million workers (Gereffi, 2005). This expansion of this type of labour intensive production has been controlled by large global buyers. For example, in 2003 Walmart spent $15 billion on Chinese-made products and 80% of the 6000 factories in the firm’s network of suppliers were in China (Gereffi, 2005). Nike is another well known example (see Donaghy and Barff, 1990). About 75,000 people are employed in the production of shoes and clothing for Nike in Asia, though only a few hundred of these are employees of the company (Feenstra, 1998).

In the context of uncertain markets and constantly shifting product differentiation dense external transactions allow both suppliers and buyers to compensate for variability and uncertainty by providing access to resources at short notice. The globalization of supply chains has furthered the rise of specialized regional agglomerations of dense networks of interrelated producers in sectors such as clothing and consumer goods. For example, the liberalization of the Chinese economy since its adoption of market-oriented reforms in 1978 involved the rapid growth of clusters of clothing and consumer goods industries in coastal provinces and large cities (Fan and Scott, 2003; Wen, 2004). With preferential development policies, coastal provinces such as Guangdong, Jiangsu and Shandong become the sites of marked localization of foreign-led manufacturing clusters (Wen, 2004). The emergence of Southern China occurred as a result of a massive shift of capital from Hong Kong and Taiwan in order to take advantage of lower production costs on the mainland (Scott, 2006). By 2004 China was by far the largest exporter of clothing with an export value nearly $72 billion or 31% of the global total (Scott, 2006).

A second type of offshore activity emerged in the 1980s as lead firms in capital and technology intensive value chains set up production chains not only to assemble finished goods but also to develop supply bases for key intermediate goods and components in sectors such as electronics computers and automobiles. As these industries globalized, some Asian firms were able to capture significant subcontracting for MNCs (Yeung, 2007). This added further impetus to the growth of Chinese regions which developed from labour intensive assembly into suppliers of electronic and other components. As a result, the rapid economic growth of China has involved the emergence of a remarkable range of specialized industrial clusters and ‘supply chain cities’ (Gereffi, 2008). To take Just two examples in different types of sector, 80% of the world’s metalic shell lighters are made in the city of Wenzhou in Zhejiang province (Thun, 2008; Wei et al., 2007), and the cluster in Datang produced nine billion pairs of socks in 2003 (Gereffi, 2008). In 2002 China displaced the EU and Mexico as the biggest exporters to the USA of computers, consumer electronics and other IT products, though of course many of these exports involved the assembly of components sourced abroad (Glyn, 2006).

One of the key lessons of value chain and production network approaches is that the opportunities for upgrading and developing new supply capabilities are shaped by relationships in different types of global value chain, as well as by the institutional agreements that govern regional and global trade (Humphrey and Schmitz, 2002; Bair and Gereffi, 2003). Spaces for full package production and more advanced manufacturing can open up as lead firms outsource more knowledge intensive opportunities and some regions have thereby managed to upgrade their supply capabilities. For example, Saxenian (2006:124) describes how Taiwan
has managed to transform itself ‘from a poor island specializing in producing toys, umbrellas and footwear into a global center of electronic systems design, manufacturing and logistics’. From the late 1970s, American and Japanese consumer electronics and semiconductor firms began to invest in Taiwan to employ low-cost labour. The rising number of Taiwanese producers also entered Original Equipment Manufacturing (OEM) relationships with PC retailers. In OEM or full package production, the customer provides detailed technical blueprints and components that allow the contractor to complete integrated production. This is usually distinguished both from simple component assembly operations and from more advanced manufacturing that requires design and marketing capabilities (Gereffi, 2005). Foreign buyers demanded improvements in quality and they became a crucial source of knowledge for new product design and development. Saxenian (2006) explains how the growth of a network form of production involving many small specialist producers in the Taipei-Hsinchu region involved the return migration of a large number of US-trained engineers and computer specialists from Silicon Valley. Entrepreneurship was boosted by such ‘brain circulation’ and the subsequent collaboration between local firms and those located in Silicon Valley. As a result the increasing capabilities of Taiwanese firms allowed them to move into original design manufacturing. They captured a growing share of global IT manufacturing so that by 2000 Taiwan ranked as the third largest producer of IT hardware. ‘By 2001 Taiwan, a country with a population of 22 million people, was producing 27 million desktop PCs per year and dominating the global market for notebook computers’ (Saxenian, 2006:171).

The third type of new global supply chain has seen the outsourcing and offshoring of services. This has involved the rise of customer service call centres and the development of software and other business services. In India, for example, multinationals have invested in low skill and labour intensive, but increasingly automated, processes such as customer service, call centres, and accounting billing and payment services. The salaries of experienced IT professionals in India are roughly 13-17% of those in the UK and USA (Rüdiger, 2007). From the 1970s some software programming services moved to India and subsequently service provision has moved into more complex work as educational policy has increased skill levels (Altenburg et al., 2008). India’s rates of growth of service exports averaged 35% per annum between 2000 and 2005 (Dossani and Kenney, 2007). Much of this growth has been driven by multinational service providers setting up subsidiaries in India, and, in turn, these firms have also outsourced to further cut their costs so that Indian software service providers have grown remarkably. By 2003 General Electric employed over 12,000 people, while HSBC employed in excess of 10,000 people in India in 2005. IBM India had increased its workforce to 60,000, and Covergys, a call centre operator, employed 10,000 in 2005. In total it was estimated that in 2003 the Indian software industry employed about 250,000 people (Arora and Gambardella, 2004).

This growth has again been tied to a dynamic of urban clustering. Most notably, by 2006 Bangalore was home to 1500 IT companies and most firms are headed by individuals who have lived and worked overseas (Basant, 2006). There is a great deal of debate about the employment consequences of this wave of service globalization, as many developed economies are now highly dependent on service jobs. According to Dossani and Kenney (2007:787), ‘During the next decade it is likely that globalization will sweep through the ranks of developed country service workers.’ However, it is worth noting that while India has developed a large business service export sector (with exports of $18.6 billion in 2002) this remains sixth in global ranking. Again, in contradiction with a flat world prediction the largest exporters of business services continue to be rich industrialized countries led by the US and UK (Amiti and Wei, 2005).
LUMPY DISPERSION?

As a result of the importance of increasing returns effects some economists have qualified liberal dispersal theories and argued that globalization produces a process of lumpy dispersion. According to Venables (2006:79), 'much activity will move out of existing centers, but relocation will be lumpy benefiting some regions more than others and recoupling into new patterns of agglomeration'. Economic growth will occur in sequence, not in parallel, as some countries join the convergence club while others are left behind. At the head of the queue are regions that neighbour existing centres with low transport costs such as coastal regions.

This process of lumpy dispersion clearly has resonance with recent development in East Asia where rising labour costs have resulted in shifts in investment to neighbouring regions. For instance, from the 1990s Taiwanese PC component makers began shifting their labour intensive activities to mainland China to exploit lower labour and land costs. Most of these investments were initially clustered in the city of Dongguan in the Pearl River Delta and by 2000 there were 1,800 PC firms in this city, 80% of them established by Taiwanese firms, while one-third of Taiwan's IT products were manufactured in China. By 2003, approximately 40,000 Taiwanese companies were located in the mainland including 10,000 in the greater Shanghai area (Saxenian, 2006). In the same year, China replaced Taiwan as the third largest IT producer with $92 billion in exports. Foreign firms, mostly Taiwanese, accounted for 85% of these exports, although several large international Chinese electronics firms have also grown in importance and reach. In total, perhaps two-thirds of the inputs for China's processing activities come from Hong Kong, Japan, Korea and Taiwan (Ravenhill, 2006).

But while forms of lumpy dispersion may have been created by East Asian production networks, it is highly uncertain whether such dispersion will continue and, in addition, whether it applies to any significant degree outside these specific regional networks. The evidence that this is a widespread process is rather thin. Simply participating in a global supply chains does not guarantee the conditions for endogenous growth and upgrading as some low cost sectors may not be strongly territorially embedded or anchored and have few local linkages or spillovers (Bair and Peters, 2006). As Yeung (2007) has argued, the growth of East Asian economies has involved complex and hard to replicate triangular couplings between the strategies of Asian firms, global production networks, and the institutional home base (developmental state) advantages of these firms. Their regionalization has been based on distinctive and hybrid Chinese business networks (Sum, 1999; Yeung, 2006). It is also unclear whether future wage increases in China will provoke further relocations of labour intensive industries. Some cities have seen wage increases of up to 50% in three years but because labour still contributes only a small fraction of the total cost of production these increases may not be sufficient to induce relocation as the other competitive advantages of China's industrial clusters will strengthen and deepen (Thun, 2008). A key question will be whether such activities relocate to the enormous labour pools of inland China, or to other countries such as Vietnam and the Philippines (Ravenhill, 2006a). Realizing the opportunities presented by the globalization of technology is highly dependent on policies to increase learning (Archibugi and Pietrobelli, 2003). To this effect, China has made unprecedented investments in education with the annual number of university graduates doubling between 2000 and 2004 to 3.8 million. Moreover, Saxenian (2006) emphasizes that the personal networks of Chinese engineers, with ties both to Silicon Valley and Hsinchu-Taipei, have been essential to technological upgrading.

More generally, most analyses of world inequality cast radical doubt on the view that globalization has resulted in a widespread
dispersion of prosperity and a flattening of the global income distribution. Despite falling numbers living in the extreme absolute poverty, in terms of simple national average incomes, there is no evidence of international income convergence. At the same time international inequality weighted by population shows some decline since 1978 mainly as a result of China’s fast growth rate (Milanovic, 2006). Leamer (2007) shows that despite the growth of average incomes in India and China between 1980 and 2000, incomes at the top of the global distribution have grown even faster so the net effect was for China and India to catch up with middle income countries but not with the richest states. Changes in the distribution of world consumption are dominated by the effects of poverty reduction and the growth of a middle class in China and without these trends would look dismal (Wade, 2004). As Edwards (2006: 1681) writes ‘Once China is removed from the picture, the rich–poor gap is seen to persist so that the rich get richer while the poor, especially those in the low income and lower-middle income countries get more numerous’. Falling inequality is not a generalized feature of the world economy and absolute income gaps are widening (Wade, 2004). Despite all the methodological complexities surrounding the measurement of global inequality, there is some agreement that the level of inequality is close to its highest historical level. The ratio between the income received by the richest 5% and the poorest 5% of people is 165 to 1 so that the richest earn in about 48 hours what the poorest earn in a year (Milanovic, 2006).

Predictions of continuing dispersion through globalization overlook or downplay the fact that positive feedbacks and increasing returns for some yield displacement and deindustrialization for others. The growth of exports from China has intensified competition between low wage labour intensive agglomerations (Scott, 2006; Lowder, 1999). According to Leamer (2007: 110), ‘The global competition for these footloose jobs was and is hopelessly intense’. Thus, a wide range of labour intensive clusters in poor and middle income countries struggled to cope with the accession of China to the World Trade Organization (for examples see Scott, 2005; Cling et al., 2005). The reduction of the clothing quotas set by the Multi-Fibre Agreement in January 2005 also led to a dramatic surge in Chinese exports to the USA. In just five months China’s textile and clothing imports rose by 64% which eroded the position of many other low income exporters (Seyoum, 2007; Kaplinsky and Morris, 2008). With full deregulation and removal of quotas it is predicted that production will consolidate in the leading exporters, so that producers in Latin America, Africa and the Caribbean are likely to lose market share. Kaplinsky (2006) argues that the export of manufacturing products from China, together with the increasing concentration of global buying in the hands of multinational retailers, has reduced the prices of manufactured products relative to commodities.

China’s imports of raw materials have also raised the prices of these commodities creating problems for other importers of these resources. Of course, some of these effects may be countered by growing exports of raw materials and primary products to China (Yueh, 2007), and over time there is little doubt that the growth of China will provide a huge market for labour intensive manufactures (Rowthorn, 2006). But, in turn, this may yield disadvantageous types of specialization in export sectors with lower growth and less scope for learning (Lall et al., 2005). As China’s exports have become more technologically sophisticated there is evidence that they have displaced the exports of other Asian exporters (Greenaway et al., 2008). This has been offset by the way in which China has been an engine of growth for neighbouring ASEAN countries as it draws in large volumes of imports and components from, and runs a trade deficit with, these states (Ravenhill, 2006b). However, the consequences for manufacturing elsewhere are more damaging. As Winters and Yusuf (2007: 33) note, the biggest challenges posed
by China, and to a lesser degree India, are to middle income countries in Asia and Latin America:

These are the countries into whose product space China in particular looks set to expand; they are the members of production networks that may be threatened by China’s move into component manufacturing; and they are the recipients of FDI designed to create export platforms for the multinational corporations.

For instance, China’s success in exporting car parts and electronic components to the US has meant that Mexico, despite NAFTA, has struggled to consolidate its share of these markets (Daunderstadt and Stetten, 2005; Gereffi, 2008).

THE UNSTABLE CONSEQUENCES OF ‘SUPERCAPITALISM’

A final set of reasons for doubting liberal convergence interpretations of globalization’s consequences is that the growth of outsourcing and the rapid rise of supply clusters took place within the context of a particular phase of globalization. Production networks are driven by the necessity, willingness and ability of consumers to acquire the products and services but, despite this, consumption rarely figures in the scripts on globalization (Dicken, 2007). The recent spread of these networks took place in a period when rapid consumer growth in many parts of the developed world was driven by the expansion of credit, driven by the globalization of finance. Reich (2008) describes this as the emergence of a period of intense competition or ‘supercapitalism’. In this account, the transformation of formerly place-dependent corporations into global supply chains has boosted corporate profitability and filled shops with low cost manufactured goods. But while globalization brought advantages to consumers in terms of access to cheap consumer goods, and advantages to investors in terms of higher shareholder returns, it has also exaggerated income inequality. In the Western world, intensive competition between firms has restrained wage growth among lower skilled groups, whilst generating vast pools of wealth for a few at the top of the income distribution. In 1968 the CEO of General Motors took home in pay and benefits about 66 times the pay of a typical GM worker, in 2005 the CEO of Walmart earned 900 times the pay of his average employee. The ample rewards of top management jobs and large financial investments, in the context of reduced state redistribution, have funded the growth of a transnational elite of superrich individuals (Beaverstock et al., 2004). Income distributions within many countries, not only rich ones but also populous poor and middle income states, have become more unequal in recent decades (Milanovic, 2006). In fact a majority of the world’s population live in countries where inequality is rising (Dollar, 2007). While globalization’s effects are difficult to pin down and it is clearly not the only cause, it has certainly been one of the major forces behind rising wage inequality and has given huge benefits to the wealthiest groups (Galbraith, 2007).

‘Supercapitalism’ has been inextricably linked with the deregulation of many key sectors, including the financial services industry. It was driven by a neoliberal regulatory regime which has argued that financial markets are most efficient when left to control themselves. As a result, the institutions and regulatory authorities necessary to sustain global financial integration exist only in rudimentary form (Clark, 2005). This institutional deficit allowed investors to reap huge profits by using computers and complex software to create new classes of financial products and investment vehicles. Simultaneously a short-termist performance culture rewarded traders with astronomical bonuses and encouraged them to take on ever greater risks (Tickell, 2000). Many of the new financial assets were forms of derivatives whose value is derived from the value of other financial assets (ibid.). By the end of 2007 the notional
value of global derivatives contracts was $600 trillion, which is eleven times world economic output (The Economist, 2008).

As a result, over recent decades the rate of growth of global financial circuits, especially speculative foreign exchange markets and derivatives markets, has been phenomenal. World foreign exchange trading reached $1,900 billion per day in 2004, three times the level of 1989 (Glyn, 2006). The bulk of this expansion was driven by constant hedging, arbitrage and speculative position-taking in international markets (Swyngedouw, 2004). Roughly 90% of these flows were thought to be moving around in search of speculative gain (ibid.). Traditional banking regulations and investor caution were bypassed as financial firms gained more freedom to compete and develop complex and opaque financial instruments (Wade, 2008; Glyn, 2006). The growth of finance has raced ahead of the growth of production or trade and the total value of global financial assets increased from $12,000 billion in 1980 to £200,000 billion in 2007 (Garten, 2008).

This growth of global finance has had several important, and widely discussed, consequences. First of course it generated a highly uneven distribution of financial assets (Sarre, 2007). Many of those working in the control centres of global finance accumulated vast fortunes. At the top of the pile, for example, the average pay of 26 managers of major American hedge funds in 2006 was $363 million (Reich, 2008). Second, however, the explosion of global financial circuits has also produced the rise of new offshore financial centres and emerging markets as investments in liberalized stock markets allowed fast rates of growth in these industrializing economies (see Palan, 1998; Sidaway and Bryson, 2002). These markets have been subject to rapid swings in confidence among investors which has produced sudden switches between large inflows and outflows of financial capital. With periodic losses of confidence and herding behaviour by investors, emerging markets have been subject to frequent crises, including crashes in Argentina, Mexico, Russia and most dramatically in East Asia in 1997–1998 (see Pauly, 2008). In fact, between during 1973–1995 there were 95 financial crises in emerging markets involving average output losses of over 9% of GDP (Schmuckler, 2004).

For the purpose of this chapter, it is important to note that the expansion of global finance and the expansion of production networks during this period of ‘supercapitalist’ boom were linked in several ways. ‘Supercapitalism’ has to a significant degree been funded by credit expansion. Turner (2008) argues that wages in the developed world have been driven down by the movement of jobs offshore in the developed world, the threat of relocation, and by the rising share of national income devoted to corporate profits. In an attempt to maintain disposable incomes and maintain economic growth, developed economy governments, led by the US and UK, pushed the expansion of credit and consumers were encouraged to borrow. The downward pressure on prices of consumer goods resulting from globalization allowed central banks to keep their interest rates very low. At the same time, financial globalization allowed the emergence of a new public and private borrowing that drove a massive expansion of debt. In the UK in 1997 total debt held by individuals stood at £570 billion, just over ten years later it reached £1,512 billion, a leap of over 165% (Turner, 2008). The borrowing binge in the US also meant that household debt had reached 140% of disposable income at the end of 2007 (The Economist, 2008).

In this credit-fuelled global economy, the USA experienced an unprecedented housing boom. Between 2000 and 2005 its average house prices grew by 50% and a wide range of financial institutions competed to lend mortgages to poorer social groups on the mistaken assumption that house prices could only go up (Morris, 2008). The surge of credit was facilitated by two key innovations in financial instruments. The first was securitization, in which mortgage lenders first unbundled and the repackaged their loans
into collateralized mortgage obligations and sold them to other banks, which in turn sold them to pension funds and other investors (Coakley, 1994; Leyshon and Thrift, 2007). This enabled mortgage lenders to build booming mortgage businesses with relatively small capital reserves. Such mortgage securities are an example of collateralized debt obligations which are financial bundles that group loans or bonds into a single product that can be sold in order to spread risk across financial institutions. The second key innovation was credit default swaps which were types of insurance policies bought by banks to purportedly insure themselves against loan defaults. The market for these swaps is said to total £3,506 billion (Münchau, 2008). Again, these acted to spread and share risks and lull investors, in Morris’ words (2008: 61), until it appeared that ‘The mathematicians had banished risk’.

This credit-bubble and the growth of housing prices allowed rising consumer expenditure which in turn attracted enormous volumes of imports from industrializing economies. The USA has been running an increasing trade deficit for several decades but by 2006 it had increased to $750 billion. Its consumer boom sucked in huge quantities of consumer goods, particularly from China. In 2003, for example, the US spent $59 billion on imports of high-technology goods from China, including 31 million DVD players, 7.5 million notebook computers and 20 million mobile phones (Branstetter and Lardy, 2006). This consumption was sustained by a huge amount of overseas borrowing (Glyn, 2006). In effect, capital flowed back to the US as manufacturing, oil and other natural resource exporters accumulated large dollar reserves through their export earnings and invested these in American financial assets such as Treasury bonds and mortgage based financial assets (Wade, 2008). Most of this money came from private investors and central banks in Russia, China and the Gulf. By 2005 foreigners owned 50% of the total stock of US Treasury Bonds, enabling the US to maintain lower interest rates than otherwise possible and to fund its balance of payments deficit (McGrew, 2008). In a cyclical process, low interest rates acted in turn to push up consumption in the US. Thus the investment flows cemented strong complementary relationships between the USA and East Asian exporters (Nordhaus, 2008).

From late 2007 this conjuncture of financial globalization and the expansion of consumer markets quickly disintegrated and the globalization of systemic financial risk has led to the worst global financial crisis since the early twentieth century. The upward spiral of credit and consumption ended with a downturn in the American housing market from 2006 (Sidaway, 2008). Falling house prices meant that recent house buyers could no longer refinance their mortgages at the end of an initial period of lower interest rates, so that mortgage defaults and repossessions accelerated. This triggered a sequence in which investors and banks became aware that the foundations of their huge pyramids of complex debt instruments were non-performing loans that could not be repaid. The devaluation of these loans has destroyed the financial standing of those banks most heavily exposed to mortgage-based lending, such as Lehman Brothers in the US and Northern Rock in the UK. As the Bank of England (2008) notes, in an interconnected global system losses spilled across markets with unexpected virulence and speed, creating an ‘adverse spiral’ between the draining of confidence and financial losses. The loss of confidence in key financial institutions has now led to a generalized ‘credit crunch’ as banks have become wary of lending both to each other and to other businesses. Facing a severe contraction in lending and the decimation of banks that are too big to be allowed to fail, governments in the core industrialized economies have been forced to part-nationalize banks and use taxpayers’ money to absorb astronomical losses in order to avoid a complete collapse in the global financial system. The crisis caused severe recessions in the major advanced capitalist economies as well as downturns in emerging market economies,
and there is even a high risk of a deep and prolonged world-wide economic recession.

Given this global financial crisis, outsourcing networks and their host economies clearly face a much more difficult and problematic economic context. Some commentators suggested optimistically that the industrializing Asian economies have sufficiently strong endogenous growth that they have ‘decoupled’ from the developed world. The effect of the financial crisis may therefore may well be to speed up the transfer of the locus of economic growth from the West to the emerging Asian giants. In this view, the rising wealth of China’s rising middle class may act to cushion its economy from economic vagaries else where (Edwards, 2006). However, China has a high degree of openness (exports and imports represent 70% of its GDP) so that its fate is increasingly and inextricably tied to that of the global economy (Yueh, 2007). Notwithstanding the significant growth of domestic Asian markets, it remains true that industrialization in East Asia has been driven by access to developed country markets, and to the American market in particular. Indeed, around three quarters of world consumption expenditure is accounted for by spending in the West (Dauvergne, 2008), so that a recession there will have severely adverse effects on export sectors and outsourcing networks. For instance, it is telling that in the late 1990s, 58% of Indian software exports went to the USA, 21% to Europe and 6% to Japan (Arora et al., 2001). In addition, those developing economies that have relied heavily on overseas borrowing and foreign capital are already suffering from a withdrawal of credit and the reversal of capital flows. However, whatever the long-term outcomes of the crisis it is clear that the global economy is entering a period of severe political-economic tensions and slower growth. In this context, later entrants to global industries face even greater competition, volatility and trade rivalry, and the argument that their entry will somehow yield a general process of economic convergence looks even more dubious.

CONCLUSIONS

This chapter has offered several critiques of optimistic liberal versions of the dispersion of capitalism and their idea of a shift to an era in which convergence prevails and erodes differences in the global economic landscape. First, they overlooked some of the contradictory geographical dynamics inherent in globalization, the continued significance of centripetal forces and the uneven competitive consequences of re-territorialization. Second, these views also underestimated the way in which the rise of certain emerging economies and the rapid spread of outsourcing depended on the existence of a particular conjuncture of financial, consumption and production processes linked by credit creation. In hindsight the liberal predictions of a new trend to convergence and opportunity were a product of their peculiar time and they mistook contingent geographical outcomes for an inexorable structural and system-wide trend. Finally, and perhaps most importantly they were unbalanced as they recognized new opportunities and routes for economic growth but missed the instability and spirals of vulnerability created by economic globalization in an age of ‘supercapitalism’.

There is little doubt that this constellation has now unravelled. Even before the recent collapse of financial globalization, several commentators were arguing that growing signs that the world economy would at some point retreat from globalization. Ferguson (2005) argued that the previous era of globalization (between 1870 and 1914) once seemed as unstoppable as contemporary globalization and had ended disastrously and that another doomsday scenario was plausible for the recent era of globalization. Indeed, several commentators pointed out that the global economy was facing a series of mounting stresses. The rising costs of oil and raw materials and the declining popularity of globalization due to increasing income inequalities have led to growing political support for protectionist measures and undermined enthusiasm for free trade and capital mobility.
Most significant is the growing realization that credit-fuelled globalization has intensified a set of environmental risks and externalities, especially resource depletion and carbon emissions, and that both nation states and global institutions have so far proved unable and unwilling to deal with these costs (Hirst and Thomson, 2002). What is certain is that globalization is a political construction and its future depends on how states respond to these escalating pressures (McGrew, 2008). These responses will determine whether the global economy either undergoes a retreat from globalization and economic interdependence, or a significant change towards a more carefully regulated and social-democratic form of governance in which markets are better managed. Of course, the growth of some forms of global production and service networks will continue, as will the powerful increasing returns and territorialization processes driving the large emerging economies. The technological improvements that facilitated outsourcing and the fragmentation of production will not cease and, in a recessionary climate, corporations may well intensify their efforts to outsource and seek lower cost production sites for some tasks and, indeed, to increase their access any markets that continue to grow. Yet without the consumption boom driven by global credit, these networks are sure to grow more slowly and selectively. In a new era in which globalization is yet more uneven, limited and contested it will be some time before the liberal ideas of global economic convergence come close to regaining their former ascendancy.

REFERENCES


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