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FOURTH EDITION

CITIES IN A WORLD ECONOMY

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Preface to the Fourth Edition

The last few years have seen the rise of an acute sense of crisis—financial, environmental, and of urban violence. There has been extreme growth in inequality and extreme growth in financial profits. The sons and daughters of the middle classes earn less than their parents, get less education, and are less likely to own a home. The number of global cities has grown, with both a massively internationalized very rich professional class and a very low-wage service class. We have seen the emergence of a global labor market. We have seen new global alignments, with the rise of China, Brazil, India, and others. The failure of interstate climate negotiations has brought to the forefront the importance and effectiveness of urban leaderships in addressing the environmental challenge. Asymmetric war has continued to urbanize war; global insecurity has strengthened racisms of all sorts and engendered new forms of urban violence.

Through it all, the city has strengthened its role as strategic space where our major challenges become acute and visible—a lens to see a larger world that remains difficult to grasp.

In this new edition, I have taken in all these transformations and the pertinent texts are incorporated throughout all the chapters. I have also added a new chapter that focuses on cities as strategic sites for asymmetric war, the financial crisis that exploded in 2008, and the environmental challenge. Cities play an increasingly significant role in all three. Among the new subjects addressed throughout the book are the new types of global labor markets that are emerging throughout the world, from China to Peru, and the new types of geographies of global migrations and remittances. I maintained much of the original structure and content, except for updates and better data presentations where better data became available. And the prefaces to the preceding editions remain part of the basic preface to the book.

As always, there are many persons to thank. The editors of the series and the editorial team at SAGE/Pine Forge, David Repetto, Maggie Stanley,

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Place and Production in the Global Economy

In the late twentieth century, massive developments in telecommunications and the ascendance of information industries led analysts and politicians to proclaim the end of cities. Cities, they told us, would become obsolete as economic entities. The growth of information industries allows firms and workers to remain connected no matter where they are located. The digitizing of both services and trade shifts many economic transactions to electronic networks, where they can move instantaneously around the globe or within a country. Indeed, from the 1970s onward, there have been large-scale relocations of offices and factories to less congested and lower-cost areas than central cities, as well as the growth of computerized clerical work that could be located anywhere—in a clerical "factory" in the Bahamas or China or a home in a nearby suburb. Although these trends may be sharpest in the United States, they are evident in a growing number of countries around the world. Finally, the emergent globalization of economic activity seems to suggest that place—particularly the type of place represented by cities—no longer matters.

But, as I argue in this book, the spatial dispersion of the economy is only half of the story of today's global and digital age. Alongside the well-documented spatial dispersal of economic activities and the increased digitizing of the sphere of consumption and entertainment are the growing spatial concentration of a wide range of highly specialized professional activities, top-level management, and control operations, as well as, perhaps most unexpectedly, a multiplication of low-wage jobs and low-profit economic sectors. More analytically, these trends point to the development of novel forms of territorial centralization amid rapidly expanding economic and social networks with global span.

Given the generalized trends toward dispersal—whether at the metropolitan or global level—and given the widespread conviction that this is the future, what needs explaining is that at the same time, centralized territorial nodes are growing. In this book, I examine why and how firms and markets that operate in multisited national and global settings require central places where the top-level work of running global systems gets done. I also show why information technologies and industries designed to span the globe require a vast physical infrastructure containing strategic nodes with hyperconcentrations of material facilities. Finally, I show how even the most advanced information industries, such as global finance and the specialized corporate legal and accounting services, have a production process that is partly place-bound: Not all of the activities of these industries circulate in electronic networks.

Once these place-centered processes are brought into the analysis of the new global and electronic economy, surprising observations emerge. These centralized territorial nodes of the digitized global economy turn out to be not only the world of top-level transnational managers and professionals but also that of their secretaries and that of the janitors cleaning the buildings where the new professional class works. Further, it is also the world of a whole new workforce, increasingly made up of immigrant and minoritized citizens, who take on the functions once performed by the mother/wife in the older middle classes: the nannies, domestic cleaners, and dog walkers who service the households of the new professional class also hold jobs in the new globalized sectors of the economy. So do truck drivers and industrial service workers. Thus emerges an economic configuration very different from that suggested by the concept of *information economy.* We recover the material conditions, production sites, and place-boundedness that are also part of globalization and the information economy. To understand the new globalized economic sectors, we actually need detailed examinations of a broad range of activities, firms, markets, and physical infrastructures that go beyond the images of global electronic networks and the new globally circulating professional classes.

These types of detailed examinations allow us to see the actual role played by cities in a global economy. They help us understand why, when the new information technologies and telecommunications infrastructures were introduced on a large scale in all advanced industries beginning in the

1980s, we saw sharp growth in the central business districts of the leading cities and international business centers of the world—New York, Los Angeles, London, Tokyo, Paris, Frankfurt, São Paulo, Hong Kong, and Sydney, among others. For some cities, this era took off in the 1980s, and for others, in the 1990s and into the new century. But all experienced some of their highest growth in decades in the form of a vast expansion of the actual area covered by state-of-the-art office districts, high-end shopping, hotel, and entertainment districts, and high-income residential neighborhoods. The numbers of firms opening up in these downtown areas grew sharply.

These trends in major cities in the 1980s, 1990s, and onward go against what was expected according to models emphasizing territorial dispersal; this is especially true considering the high cost of locating a business enterprise in a major downtown area. Complicating the understanding of the new global economy and also often receiving most of the attention from the media and commentators was the fact that the departure of large commercial banks, insurance firms, and corporate headquarters was far more visible than the growth of smaller, highly specialized, and high-profit firms that was happening at the same time. This suggests that the growth trends were part of a new type of economic configuration. Thus, explaining the place of cities simply in terms of the departure of large corporate firms and the growing dispersal trends was evidently missing a key new component of the story.

But this still leaves us with the question, if information technologies have not made cities obsolete, have they at least altered the economic function of cities—have cities lost some of their old functions and gained new ones we could not quite understand when this new phase was taking off? And if this is so, what does it tell us about the importance of place and its far greater mix of diverse economic sectors and social groups than is suggested by the prevalent imagery of high-level corporate economic globalization and information flows? Is there a new and strategic role for major cities, a role linked to the formation of a truly global economic system, a role not sufficiently recognized by analysts and policymakers? And could it be that the reason this new and strategic role has not been sufficiently recognized is that economic globalization—what it actually takes to implement global markets and processes—is not only about massive dispersal of operations around the world but also about thick places?

The notion of a global economy has become deeply entrenched in political and media circles all around the world. Yet its dominant images—the instantaneous transmission of money around the globe, the information economy, the neutralization of distance through telematics—are partial, and hence profoundly inadequate, representations of what globalization and the rise of information economies actually entail for the concrete life of cities. Missing from this abstract model are the actual material processes, activities, and infrastructures crucial to the implementation of globalization. Overlooking the spatial dimension of economic globalization and overemphasizing the virtual information dimensions have served to distort the role played by major cities in the current phase of economic globalization.

A focus on cities almost inevitably brings with it recognition of the existence of multiple social groups, neighborhoods, contestations, claims, and inequalities. Yet this raises its own questions. Where does the global function of major cities begin, and where does it end? How do we establish what segments of the thick and complex environment of cities are part of the global? These issues are difficult to measure and determine with precision. But that does not mean that we can overlook them and simply focus on the economic core of advanced firms and the households of top-level professionals. We need to enter the diverse worlds of work and social contexts present in urban space, and we need to understand whether and how they are connected to the global functions that are partly structured in these cities. This requires using analytic tools and concepts that come from the scholarship on class and inequality, immigration, gendering, the politics of culture, and so on. These are scholarships not easily associated with the prevalent imagery about the information economy. At the same time, these kinds of inquiries also help us specify the question of globalization in more than its economic forms and contents. They help us specify the fact of multiple globalizations—economic, political, and cultural. Cities are good laboratories for these types of inquiries because they bring together vast mixes of people, institutions, and processes in ways that allow us to study them in great detail. Few, if any other places, contain such a mix of people and conditions and make their detailed study as possible as cities do.

One way of addressing the question of where the global begins and ends in this dense urban environment is to focus in detail on the multiple shapes and contents of globalization rather than assuming it consists of global firms and global professionals.

Beginning in the late 1970s and taking off in the mid-1980s, there have been pronounced changes in the geography, composition, and institutional framework of the world economy. Although cross-border flows of capital, trade, information, and people have existed for centuries, the world economy has been repeatedly reconstituted over time. A key starting point for this book is the fact that in each historical period, the world economy has consisted of a distinct configuration of geographic areas, industries, and institutional arrangements. One of the most important changes in the current phase has been the increase in the mobility of capital at both the national and especially the transnational levels. This transnational mobility of capital has brought about specific forms of articulation among different geographic areas and transformations in the role played by these areas in the world economy. This trend in turn has produced several types of locations for international transactions, the most familiar of which are export processing zones and offshore banking centers; these began to be developed in the late 1960s, precisely a time when national states exercised strong regulatory powers over their economies. One question for us is, then, the extent to which major cities are yet another type of *location* for international transactions in today's world economy, although clearly one at a very high level of complexity compared with those zones and centers.

A key focus in studies of the global economy has been the increased mobility of capital, particularly in the shape of the changing geographic organization of manufacturing production and the rapidly expanding number of financial markets becoming part of global networks. These are critical dimensions, and they emphasize the dispersal of firms and markets worldwide. What such studies leave out is the fact that this dispersal itself generates a demand for specific types of production needed to ensure the management, control, and servicing of this new organization of manufacturing and finance. These new types of production range from the development of telecommunications to specialized services—legal, accounting, insurance—that are key inputs for any firm managing a global network of factories, offices, and service outlets, and for any financial market operating globally. The mobility of capital also generates the production of a broad array of innovations in these sectors. These types of service production have their own locational patterns; they tend toward high levels of agglomeration in cities with the needed resources and talent pools. Thus, the fact itself that a manufacturing multinational firm produces its goods partly in export processing zones in ten, twenty, or even thirty countries creates a demand for new types of accounting, legal, and insurance services. It is these increasingly specialized and complex services that can benefit from the many state-of-the-art firms and experienced professionals concentrated in cities.

We will want to ask whether a focus on the *production* of these service inputs illuminates the question of place in processes of economic globalization, particularly the kind of place represented by cities. In fact, specialized services for firms and financial transactions, as well as the complex markets connected to these economic sectors, are a layer of activity that has been central to the organization of major global processes beginning in the 1980s. To what extent is it useful to add the broader category of cities as key production sites for such services for firms to the list of recognized global spaces, that is, headquarters of transnational corporations, export processing zones, and offshore banking centers? These are all more narrowly defined locations compared with cities. But I show in this book that to further our understanding of major aspects of the world economy's organization and management, we cannot confine our analysis to these narrow and self-evident "global" locations. We need to enter and explore the more complex space where multiple economies and work cultures come together to produce the complex organizational and management infrastructure necessary to handle the running of global operations. Further, we need to understand the new types of tensions, segmentations, and inequalities that are generated in this process and become visible in the space of the city.

However, this way of thinking about cities as a site for empirical research about economic, political, and cultural globalization has tended to fall between the cracks of existing scholarship. On the one hand, much of the research on cities focuses on internal social, economic, and political conditions, and it views cities as parts of national urban systems. International matters have typically been considered the preserve of nation-states, not of cities. On the other hand, the literature on international economic activities has traditionally focused on the activities of multinational corporations and banks and has seen the key to globalization in the *power* of multinational firms and the new telecommunications capabilities. This leaves no room for a possible role for cities. Finally, the scholarship on international relations has confined itself to a focus on states as the key actors in the global realm.

All of these approaches contain much useful and important empirical and analytical material. But they are not enough to allow us to understand cities as strategic global sites. Twenty years of empirical and theoretical struggles by a small but growing number of researchers from many parts of the world have now produced a novel type of scholarship that gets precisely at this issue. Usually referred to as the *world cities* or *global city* scholarship, it provides many of the materials examined and discussed in this book.

Including cities in the analysis adds three important dimensions to the study of globalization. First, it breaks down the nation-state into a variety of components and thereby allows us to establish whether and how, some of these components are articulated with global processes, and others are not at all. Second, our focus is not only on the power of large corporations over governments and economies but also on the range of activities and organizational arrangements necessary for the implementation and maintenance of a global network of factories, service operations, and markets; these are all processes only partly encompassed by the activities of transnational corporations and banks. Third, it contributes to a focus on place and on the urban social and political order associated with these activities. Processes of economic globalization are thereby reconstituted as concrete production complexes situated in specific places containing a multiplicity of activities and interests, many unconnected to global processes. As with other production complexes—mines, factories, transport hubs—the narrowly economic aspects are only one, even if crucial, component. The organization of labor markets, their gendering, new inequalities, and local politics can variously be part of this new urban production complex. Including these dimensions allows us to specify the micro-geographies and politics unfolding within these sites places. Finally, focusing on cities allows us to specify a variety of transnational geographies that connect specific groups of cities—depending on economic activity, migration flows, and the like.

Bringing all of these elements together is a central thesis organizing this book: Since the 1980s, major transformations in the composition of the world economy, including the sharp growth of specialized services for firms and finance, have renewed the importance of major cities as sites for producing strategic global inputs. In the current phase of the world economy, it is precisely the combination of, on the one hand, the global dispersal of factories, offices, and service outlets, *and* on the other, global information integration—under conditions of continued concentration of economic ownership and control—that has contributed to a strategic role for certain major cities. These I call *global cities* (Sassen [1991] 2001), of which there are by now about seventy worldwide, covering a broad variety of specialized roles in today's global economy. Some of these, such as London, Amsterdam, Mumbai, and Shanghai, have been centers for world trade and banking for centuries. Others have not, notably São Paulo, Singapore, Chicago, and Los Angeles. Today's global cities are (1) command points in the organization of the world economy, (2) key locations and marketplaces for the leading industries of the current period—finance and specialized services for firms, and (3) major sites of *production*, including the production of innovations, for these industries as their products are not simply a function of talent but are made. Several cities also fulfill equivalent functions on the smaller geographic scales of both trans- and subnational regions. Furthermore, whether at the global or the regional level, these cities must inevitably engage each other in fulfilling their functions, as the new forms of growth in these cities partly result from the proliferation of interurban networks. There is no such entity as a single global city.

Once we focus on places, whether cities or other types of places, rather than whole national economies, we can easily take account of the fact that some places even in the richest countries are becoming poorer, or that a global city in a developing country can become richer even as the rest of the country becomes poorer. An analysis of places rather than national indicators produces a highly variable mosaic of results. Alongside these new global and regional hierarchies of cities lies a vast territory that has become increasingly peripheral and is excluded from the major processes that fuel economic growth in the new global economy. Many formerly important manufacturing centers and port cities have lost functions and are in decline, not only in the less developed countries but also in the most advanced economies.[1] This is yet another meaning of economic globalization. We can think of these developments as constituting new geographies of centrality that cut across the old divide of poor versus rich countries, or, as in my preferred usage in this book, the global South versus global North divide. But there are also new geographies of marginality cutting across the poor–rich country divide, as growing numbers of people in global cities of both the north and the south are now poorer and work in casual rather than unionized jobs.

The most powerful of these new geographies of centrality binds together the major international financial and business centers: New York, London, Tokyo, Paris, Frankfurt, Chicago, Seoul, Hong Kong, Shanghai, São Paulo, Mumbai, Zurich, Amsterdam, Sydney, and Toronto, among others. But this geography now also includes cities such as Buenos Aires, Shenzen, Kuala Lumpur, Istanbul, and Budapest. The intensity of transactions among these cities, particularly through financial markets, flows of services, and investment, has increased sharply, and so have the orders of magnitude involved. At the same time, there has been a sharpening inequality in the concentration of strategic resources and activities between each of these cities and others in their respective countries. For example, Paris now concentrates a larger share of leading economic sectors and wealth in France than it did as recently as 1980, whereas Marseilles, once a major economic center, has lost some of its share in France's economy. Frankfurt's financial center has gained sharply over the other six financial centers in Germany; given the rather decentralized political organization of this country, we might have expected to see multiple equally strong financial centers. Some national capitals, for example, have lost central economic functions and power to the new global cities, which have taken over some of the coordination functions, markets, and production processes once concentrated in national capitals or in major regional centers. A case in point, São Paulo has gained immense strength as a business and financial center in Brazil over Rio de Janeiro—once the capital and most important city in the country—and over the once powerful axis represented by Rio and Brasilia, the current capital. This is one of the consequences of the formation of a globally integrated economic system.

These economic dynamics are partly constituted in social and cultural terms. For example, foreign or native migrant workforces supply the new types of professional households with nannies and cleaners; these same migrants also bring cultural practices that add to a city's life, and they bring political experiences that can help with union organizing. Further, the new economic dynamics have often sharp and visible effects on urban space, notably the expansion of luxury housing and office districts at the cost of displacing lower-income households and low-profit firms. The city brings together and makes legible the enormous variety of globalities that are emerging and the many different forms—social, cultural, spatial—they assume.

More generally, what is the impact of this type of economic growth on the broader social and economic order of these cities? Much earlier research on the impact of dynamic, high-growth manufacturing sectors in developed and developing countries shows that these sectors raised wages, reduced economic inequality, and contributed to the formation and expansion of a middle class. There is less research on the distributive outcomes of the new economic sectors that dominate global cities, partly because these are still relatively new processes. But the available evidence does show much more inequality than that associated with dynamic manufacturing-based economies. Indeed, much of the new prosperity in China originated from the rapid growth of manufacturing.

These somewhat hidden features of the globalized core in complex cities become legible when we emphasize the material conditions for and the work of producing the specialized services that are a key component of all such cities. It means, as indicated earlier, bringing into the analysis nonprofessional workers and work cultures: for example, bringing in the truckers that deliver the software, not only the high-level professionals that use it. Such an emphasis is not typical in research on these specialized services; they are usually seen as a type of output: high-level technical expertise. Thus, insufficient attention has gone to the actual array of jobs, from high paying to low paying, involved in the production of even the most sophisticated and complex services. A focus on production displaces the emphasis from expertise to work. Services need to be produced, and the buildings that hold the workers need to be built and cleaned. The rapid growth of the financial industry and of highly specialized services generates not only high-level technical and administrative jobs but also low-wage unskilled jobs.

This is one type of inequality we are seeing within cities, especially within global cities. Since this same inequality is also evident in global cities of developing and even poor countries, it contributes to the formation of new geographies of centrality and marginality that cut across the North–South divide and exclude the increasing numbers of poor in both the North and the South.

This new urban economy is in many ways highly problematic, particularly in global cities, where it assumes its sharpest forms given the large concentrations of high-profit firms and high-income households. The new growth sectors of specialized services and finance contain capabilities for profit making vastly superior to those of more traditional economic sectors. Many of these more traditional sectors remain essential for the operation of the urban economy, including the new globalized core, and for the daily needs of residents, but their survival is threatened in a situation in which finance and specialized services can earn super-profits. This sharp polarization in the profit-making capabilities of different sectors of the economy has always existed. But today it is much sharper, and it is engendering massive distortions in the operations of various markets, from housing to labor. We can see this effect, for example, in the unusually sharp increase in the earnings of high-level professionals in the corporate sector and in the falling or stagnating wages of low-skilled manual and clerical workers. We saw the same effect in the retreat of many real estate developers from the low- and medium-income housing market in the 1980s and 1990s as the rapidly expanding demand for housing by the new highly paid professionals rose and delivered higher profits through overpricing. These trends are all evident in cities as diverse as New York and Dublin, Oslo and São Paulo, Shanghai and Istanbul.

The rapid development of an international property market has made this disparity even worse. It means that real estate prices at the center of New York City are more connected to prices in central London or Frankfurt than to the overall real estate market in New York's metropolitan area. In the 1980s, powerful institutional investors from Japan, for example, found it profitable to buy and sell property in Manhattan or central London. In the 1990s, this practice multiplied, involving a rapidly growing number of cities around the world. German, Dutch, French, and US firms invested heavily in properties in central London and in other major cities. Increasingly, the city itself became the object of investment. And even after the attacks of September 2001 and the financial crisis of 2008, New York City real estate has been bought by a growing number of foreign investors, partly due to the weak dollar, which made these acquisitions profitable. These practices generally forced prices up because of the competition among very powerful and rich investors and buyers. Because much of the purpose was to sell at a profit rather than actually to use the property, it further raised prices. How can a low- or medium-profit local commercial operation compete with such powerful investors for space and other resources, no matter how long and successful its record in the older economy?

The high profit-making capability of the new growth sectors, of which finance is emblematic, rests partly on speculative activity. The extent of this dependence on speculation can be seen in the regular crises in many developed countries. Notable is the crisis in the late 1980s and early 1990s that followed the unusually high profits in finance and real estate in the 1980s. That real estate and financial crisis, however, left the basic dynamic of the sector untouched, and we saw prices and stock market values reach new highs by the mid-1990s—only to have yet another crisis in 1997–98, though by then most of the highly developed countries had learned how to protect themselves, and the costs of the crisis were largely borne by countries that had been considered emerging markets for financial investments. As had happened before, this crisis was followed by enormous increases in profits, only to be followed by yet another series of crises in the 2000s, culminating in the massive crisis of 2008. These crises do generate a temporary adjustment to more reasonable (i.e., less speculative) profit levels, but for only brief periods of time. The overall dynamic of polarization in profit levels in the urban economy remains in place across these various crises, as do the distortions in many markets, well illustrated by super-profits in finance and simultaneous massive unemployment in most global North economies.

The typical informed view about the global economy, cities, and the new growth sectors does not incorporate the multiple dimensions examined in this book. Elsewhere, I have argued that the dominant narrative or mainstream account about economic globalization is a narrative of eviction (Sassen 1996). In the dominant account, the key concepts—globalization, information economy, and high-level professional outputs—all suggest that place no longer matters and that the only type of worker that matters is the highly educated one. That account favors (1) the capability for global transmission over the concentrations of material infrastructure necessary to make that transmission possible; (2) information outputs over the workers producing those outputs, whether they be specialists or secretaries; and (3) the new transnational corporate culture over the multiplicity of cultural environments, including reterritorialized immigrant cultures within which many of the *other* jobs of the global information economy take place. In brief, the dominant narrative concerns itself with the upper circuits of capital, not the lower ones, and with the fact of hyper upward mobility while ignoring downward mobility and deepening inequalities.

This narrow focus in the mainstream account has the effect of excluding the *place*-boundedness of significant components of the global information economy; it thereby also excludes a whole array of activities and types of workers from the story of globalization that in their own way are as vital to that story as are international finance and global telecommunications. Failing to include those activities and workers ignores the variety of cultural contexts within which the advanced sectors function. That diversity is as present in processes of globalization as is the new global corporate culture. When we focus on place and production, we can see that globalization is a process involving the corporate side and the immigrant economies and work cultures, the new importance of craftworkers, the cultural sector, and global tourism evident in global cities. And all these sectors include lowly paid workers and low-profit-making firms.

These new empirical trends and theoretical developments are making the study of cities prominent once again for a growing number of social scientists and cultural theorists. Cities have re-emerged not only as objects of study but also as a lens for research and theorization on a broad array of major social, cultural, economic, technological, and political processes central to the current era: (1) economic globalization and international migration, (2) the emergence of specialized services and finance as the leading growth sector in advanced economies, (3) new types of inequality, (4) the new politics of identity and culture, (5) new types of politically and ideologically radicalizing dynamics, (6) the urbanizing of a broad range of high-technology systems, and (7) the politics of space, notably the growing movement for claiming rights to the city.

Many of these processes are not urban per se, but they have an urban moment; in many cases, the urban moment has become increasingly important and/or capable of illuminating key features of the larger process involved. In this context, it is worth noting that we are also seeing the beginning of a repositioning of cities in policy arenas. Two instances of this recent trend stand out in particular. One is the programmatic effort to develop analyses that can show how important urban economic productivity is to macroeconomic performance; in the past, economic growth was measured simply in terms of overall national and regional indicators. The other is the explicit effort by the leadership of a growing number of cities to bypass national states and gain direct access to global investment and tourism markets as well as to recruit firms, cultural projects (such as international festivals and science exhibitions), sports events, and conventions. The mayors of a growing number of cities worldwide have set up offices for foreign economic affairs in multiple countries and appear increasingly interested in dealing directly with the mayors, firms, and cultural institutions of other countries.

The subject of the city in a world economy is extremely broad. The body of literature on cities is enormous, but it focuses mostly on single cities and on domestic issues; further, international studies of cities have leaned toward the comparative. Lacking until recently was a transnational perspective on the subject: that is to say, one that takes as its starting point a dynamic system or set of transactions that by their nature entail multiple locations involving more than one country. This contrasts with a comparative international approach, which focuses on two or more cities that may have no connections to each other.

This book focuses particularly on recent empirical and conceptual developments because they are an expression of major changes in urban and national economies and in modes of inquiry about cities. Such a choice is inevitably limited and certainly cannot account for the many cities in the world that may *not* have experienced any of these developments. This book's focus on the urban impact of economic, political, and cultural globalization; the new inequalities among and within cities; and the new urban socio-spatial order is justified by the major characteristics of the current historical period and the need for social scientists to address these changes.

Chapter 2 examines the key characteristics of the global economy that matter for an understanding of globalization and cities. In many cities, these global presences are weak or nonexistent. But they are becoming increasingly strong in a growing number of cities. Understood as tendencies, they reveal new formations and indicate future trends. Chapter 3 analyzes the new interurban inequalities, focusing on three key issues: (1) the diversity of urbanization patterns across continents, (2) the impact of globalization, particularly the internationalization of production and the growth of tourism, on so-called primate urban systems in less developed countries, (3) the impact of economic globalization on so-called balanced urban systems, and (4) the possible formation of transnational urban systems, including the emergence of hundreds of cities across the world with significant immigrant populations. Chapter 4 focuses on the new urban economy, where finance and specialized services have emerged as driving engines for profit-making. One important aspect examined in this chapter is the sharp increase in the linkages binding cities that function as production sites and marketplaces for global capital. Chapter 5 explores these issues in greater detail through case studies of the turning point that led some cities into global city status from the 1980s to the 1990s. It further examines a more recent set of turning points in the 2000s, illustrated through very diverse cases: Hong Kong and Shanghai, the Gulf city-states, and the repositioning of a 3,000-year-old imperial capital, Istanbul, in the re-emerging global East–West axis. Chapter 6 focuses on new urban social forms resulting from growing inequalities and segmentations in labor markets and urban space. The effort here is to understand whether the changes documented in this book are merely a quantitative transformation or also a qualitative one. Is it simply a matter of more poor and more inequality, or are we seeing emerging types of poverty and inequality that constitute new social forms? Chapter 7 takes one particular case as a lens to get at a more detailed and focused account of the issues introduced in Chapter 6: women immigrants who increasingly constitute global care-chains as they become the nannies, nurses, maids, and sex workers in global cities. Chapter 8 considers the larger transnational social, cultural, and political dynamics that are becoming mobilized through the variety of processes examined in this book.

Note

1 The city of Detroit, Michigan, once a hub of automobile manufacturing and now in economic decline, is one prime example.

2

The Urban Impact of Economic Globalization

Profound changes in the composition, geography, and institutional framework of the world economy over the centuries have had major implications for cities. In the 1800s, when the world economy consisted largely of extracting natural resources and trade, the global function of cities was as servicing centers, typically developed alongside harbors. Then as now, trading companies depended on multiple industrial, banking, and other commercial services located in cities. Many of the major cities in the colonial empires of Britain, the Netherlands, France, Germany, Spain, and Portugal were international gateways. Yet, cities were not the key production sites for the leading industries in the 1800s; they were centers for administration and commerce. The material production that fed the wealth-making circuits, notably trade, was centered in harbors, plantations, factories, and mines.

Today's global economy still consists of international trade, agribusiness, manufacturing, and extraction of natural resources, but these have all been overshadowed, both in value and in power, by the development of vast global financial markets as well as a proliferation of global markets for highly specialized corporate services. These markets are today's leading wealth-making circuits, and they have subjected material production to their logics; for instance, gold is no longer simply traded as metal but is today also traded through a series of financial instruments. In the 1980s, finance and services generally emerged as the major components of international transactions: They service all the other components of the global economy; thus, as the global economy grows, so does the value of finance and services. Further, finance has invented its own wealth-producing markets, as have some of the specialized services, such as consulting services of various kinds. The shift to electronic financial markets and the lifting of national barriers to capital flows, both features taking off in the late 1980s, allowed finance to reach values that dwarfed those of other major components of the global economy. Thus, by the end of 2004, the value of global trade stood at US$1 trillion, compared with US$262 trillion for global finance—as measured through the value of traded derivatives. By 2008, the value of finance had jumped to US$600 trillion, further lengthening the distance between its value and the value of trade.

The crucial sites for financial and services transactions are financial markets, advanced corporate service firms, banks, and the headquarters of transnational corporations (TNCs). Today, it is these sites that lie at the heart of the global economy rather than mines, factories, and plantations; in fact, the latter are increasingly subordinated to the logic of financial profit and shareholder value. The most specialized and least routinized of these markets and firms are disproportionately concentrated in global cities and constitute key components of what I have conceptualized as the "global city production function." Thus, one of the variables influencing the role of cities in the new global economy is the composition of international transactions. Although standard analyses of the world economy focus in great detail on these transactions, they do not pick up on their spatial correlates and hence on the significance of cities in the global economy. It took the scholarship on global cities and world cities to arrive at this conceptualization.

In the first half of this chapter, I present a somewhat detailed account of today's geography, composition, and institutional framework of the global economy with an eye to capturing the implications for cities. In the second half, I focus on two types of strategic places for international financial and service transactions: global cities and offshore banking centers. Finally, I consider the impact of the collapse of the Pax Americana on the world economy and the subsequent shift in the geography of international transactions from the North–South axis of much of the twentieth century to an increasingly East–West axis. To this should be added China's recent development of a new transversal axis, best illustrated through massive investments in Africa, ranging from enormous acquisitions of land to the building of large-scale infrastructures—notably roads and ports.

The Global Economy Today

The emphasis here is on new investment patterns and the major features of the current period. The purpose is not to present an exhaustive account of all that constitutes the world economy today. It is rather to discuss what distinguishes the current period from the immediate past. Trade and primary industries, the dominant sectors of the prior hundred-plus years of the world economy, were rapidly outdistanced in the 1980s and onward by finance, foreign direct investment, and specialized services for firms. Besides the already cited sharper growth of the value of financial transactions compared to that of trade, foreign direct investment (FDI) grew three times faster in the 1980s than the export trade. By the mid-1980s, investment in services had become the main component in FDI flows, whereas before most of the FDI flows were for manufacturing and raw materials extraction. From 1990 through 2007, the services and manufacturing sectors comprised approximately 90% of FDI stock worldwide, but with increasingly diverging shares: that of services grew from approximately 48% to 64%, while that of manufacturing fell from approximately 41% to 27%. The numbers are even more striking for developing economies (see Exhibit A.2.3), though by the end of 2000s, investments in mining, land, and oil rose sharply and investments in manufacturing mostly fell (see Exhibit A.2.4), especially in Africa.

Geography

Geography is a key empirical feature of the world economy regardless of the century or what empire dominates. It depends on multiple factors ranging from the number of competing empires to the composition of global transactions. When international flows consist of raw materials, agricultural products, or mining goods, the geography of transactions is in part determined by the location of natural resources. Historically, this has meant that a large number of countries in Africa, Latin America, and the Caribbean were key sites in this geography. When finance and specialized services became the dominant component of international transactions in the early 1980s, the role of many of these areas declined in importance and that of financial and service centers increased, even though much of finance consists of instruments that are a financial version of those goods.

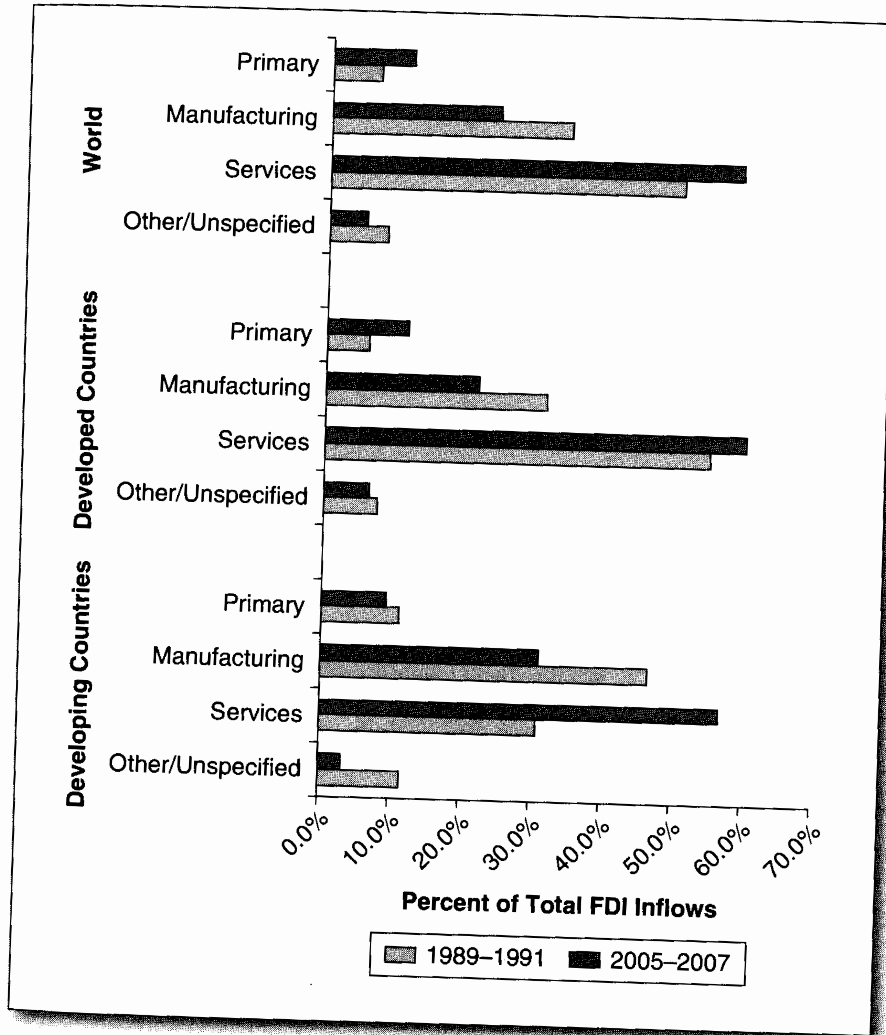
Compared with the 1950s, the 1980s saw an increase in the values but a narrowing in the geography of the global economy. The result was a strengthened East–West axis with a sharp growth of investment and trade within what at the time was referred to as *the triad:* the United States, Western Europe, and Japan. In contrast, developing countries lost share in overall international investment in the 1980s even as absolute values rose; as a group, though not individually, these countries had regained their share by the mid-1990s but typically through novel articulations with the world economy.

The fact of a new geography of international transactions becomes evident in FDI flows—that is, investors acquiring a firm, wholly or in part, or building and setting up new firms in a foreign country (see UNCTAD 1992; 2009b for a full definition). Recently, extreme forms of foreign direct investment have involved direct large-scale land acquisitions by corporations and governments—for growing food, for accessing water supplies, and for extracting so-called "rare earths," critical metals for our electronic revolution (see generally Exhibits 2.4 and 2.5; Sassen 2010). This accelerated search for resources has reactivated a North–South flow, but one that is different from the old European and American colonial empires. As already indicated, China leads in these investments and does so through a transversal global geography that bypasses the old centers of power in the west.

Notwithstanding these realignments, foreign direct investment flows remain highly differentiated in their destination because they consist of a vast number of individual investments in all economic sectors and through a large number of firms and government. These investment flows can be constituted through many different kinds of economic processes, a subject I discuss throughout this book. Thus, in the 1980s and 1990s, the growth in FDI took place through the internationalization of production of goods and services and of portfolio investment (buying firms). In the late 1990s and up to the late 2000s, it is services, the globalization of finance, and the financializing of more and more economic sectors that is the dominant pattern. One clear trend is the sharp and ongoing growth of FDI up to the financial and economic crisis that took off in 2008. Worldwide FDI inflows went from US$638 billion for the period 1985–90 to US$1.7 trillion for 1990–94, then rose further to US$4.1 trillion for 2000–04 and began to fall after 2007 down to US$1.7 trillion in 2008 (see Exhibit A.2.1). Investment in the tertiary sector grew consistently over this period (see Exhibit A.2.2).

The geography of FDI shows clearly that by far the largest share of FDI went and continues to go to developed countries, with an average annual growth of 24% from 1986 to 1990, reaching a value of US$129.6 billion in 1991, out of a total worldwide FDI inflow of US$159.3 billion, and rising to US$1.1 trillion in 2000 out of a world total of US$1.38 trillion. From 2005–08, the developed world received 63.93% of FDI inflows (see Exhibits A.2.1 and A.2.2). On average, the share of developed countries has hovered around 70%, albeit with fluctuations across the years; this is also reflected in the cumulative FDI stock of developed

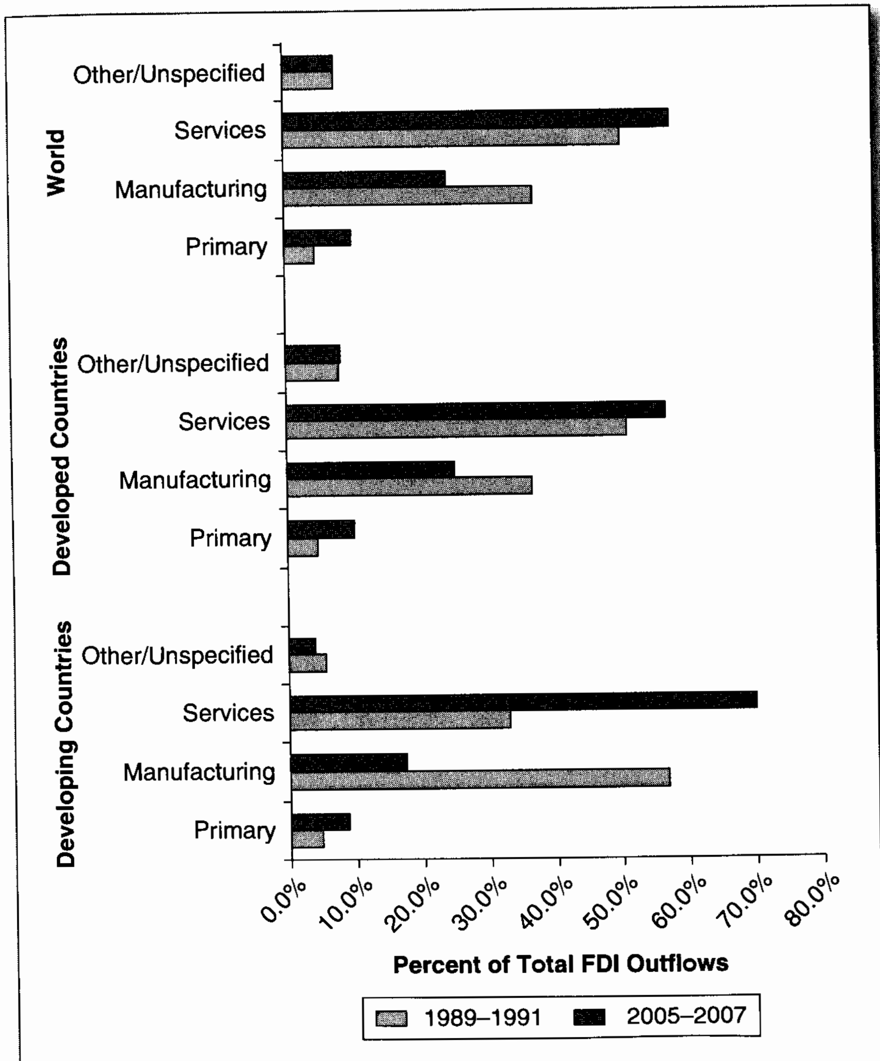
Exhibit 2.1 Foreign Direct Investment Inflows by Sector, 1989–1991 and 2005–2007



Source: Compiled from data in UNCTAD (2009b): 220–21.

countries (see Exhibits A.2.3 and A.2.4). There was sharp concentration in the destination of flows even among developed countries. Four countries tend to be the major capital importing and exporting countries (United States, United Kingdom, France, and Germany); together, they account for about half of world inflows and outflows. Financial concentration across these decades is also evident in a ranking of the top banks in the world, with only eight countries represented (see Exhibits 2.3 and A.2.5; see also Chapter 5). The rise of China as an investor will not necessarily alter these rankings, even as it develops its own North–South investment axis, with Africa and South America as key destinations.

Exhibit 2.2 Foreign Direct Investment Outflows by Sector, 1989–1991 and 2005–2007



Source: Compiled from data in UNCTAD (2009b): 220–21.

Exhibit 2.3 Cities Ranked by Revenues of the World's Largest Commercial and Savings Banks, 2005 and 2009 (US$ millions)

Rank	*City*	*Number of Firms*	*Revenues*	*Profits*
1	Paris	4	189,294	16,850
2	New York	2	165,207	21,512
3	London	3	140,822	22,264
4	Frankfurt	4	121,615	4,450
5	Brussels	3	120,211	7,796
6	Zurich	2	115,743	11,039
7	Edinburgh	2	107,506	13,868
8	Charlotte	2	91,391	19,357
9	Tokyo	3	86,055	6,808
10	Beijing	4	75,738	8,896
11 to 21		27	517,801	47,272
Total:	—	56	1,731,383	180,112
		2009 (US$ millions)		
Rank	*City*	*Number of Firms*	*Revenues*	*Profits*
1	Paris	5	427,190	12,061
2	New York	5	361,581	–15,351
3	Brussels	2	299,043	3,646
4	London	4	272,818	18,673
5	Beijing	4	227,925	45,939
6	Amsterdam	1	226,577	–1,067
7	Frankfurt	4	188,991	–11,269
8	Edinburgh	2	175,488	–56,918
9	Tokyo	3	126,862	–12,136
10	Madrid	1	117,803	12,992
11 to 20		16	762,400	28,930
Total:	—	47	3,186,677	25,500

Source: Calculations based on "Global 500" (2005) and "Global 500" (2009).

The growth of investment flows into developing countries in the 1990s did not even come near the levels for developed countries, but it did represent a historic high—a fact that reflects the growing internationalization of economic activity generally (see Exhibits A.2.1 to A.2.4). From 1985 to 1990, FDI grew at an annual rate of 22% compared with 3% from 1980 to 1984 and 13% from 1975 to 1979. Yet the share of worldwide flows going to developing countries as a whole fell from 32.23% to 17.7% between the early 1980s and the late 1980s, pointing to the strength of flows within the triad (United States, Western Europe, and Japan). From 1992 to 1997, the average share grew to 38% of world inflows before falling again with the Asian financial crisis of 1997–98. After a low of 18% of world inflows, the share of developing countries was up to 36.57% in 2008. (Exhibits A.2.1 to A.2.4)

When the flows to developing countries are disaggregated for the 1980s and 1990s, it becomes clear that they went mostly into East, South, and Southeast Asia, where the annual growth rate on average was about 37% a year in the 1980s and 1990s. These figures point to the emergence of this Asian region as a crucial transnational space for production; in the 1980s, it surpassed Latin America and the Caribbean for the first time ever as the largest host region for FDI in developing countries. This is also evident in the dominance of China as a capital-receiving country: it has the largest number of affiliates of global firms (see Exhibit A.2.6). There was a time when Latin America was the single largest recipient region of FDI. But the 1980s marked the end of that phase. Between 1985 and 1989, Latin America's share of total flows to developing countries fell from 49% to 38%, and Southeast Asia's rose from 37% to 48%. However, the absolute increase in FDI has been so large that, even with a falling share, Latin America had considerable increases in the amount of FDI, especially toward the end of the 1980s and in the 1990s. But again, when the flows to Latin America are disaggregated, we see that most investment went to Brazil, Argentina, and Chile (see Exhibit 3.5 on p. 69).

One rapidly growing component of foreign direct investment by rich country governments and firms is land. More than thirty million hectares have been bought or leased since 2006 by foreign governments and firms. (See generally Exhibits 2.4 and 2.5.) While the old empires already were in the business of buying and appropriating land, the post-2006 patterns are, in my view, a new phase in this old practice (Sassen 2010). The world is today divided into sovereign states, which, at least nominally, have authority over their land. This has meant complex contractual arrangements because it is not that simple for one state to buy land from another state (Sassen 2008a: chap. 5; 2010). Africa is a major destination for these investments, but so are Russia, Ukraine, and Latin America. Buyers are governments (as diverse as Sweden, South Korea, or China) and global firms (mining firms, food growers, financial firms). In short, FDI is growing in both scale and scope.

The other two major components of the global economy are trade and financial flows other than FDI. By its very nature, the geography of trade is less concentrated than that of direct foreign investment—wherever there are buyers, sellers are likely to go. Finance, on the other hand, is enormously concentrated, as I show in Chapters 4 and 5.

Composition

In the 1950s, the major international flow was world trade, especially of raw materials, other primary products, and resource-based manufacturing. In the 1980s, the gap between the values mobilized through trade and those mobilized through financial flows began to widen sharply, as I described earlier. Notwithstanding severe measurement problems, it is clear that the value reached by financial transactions dwarfs that of other flows. Finally, within FDI stock and flows, the tertiary sector raised its share over that of primary and secondary sector investments, reaching about sixty of global FDI inflows and outflows (see Exhibit A.2.4).

Many factors feed the composition of international transactions. For example, in the 1980s, (1) several developed countries became major capital exporters, most notably Japan; (2) the number of cross-border mergers and acquisitions grew sharply; and (3) the flow of services and transnational service corporations emerged as major components in the world economy. Services, which accounted for about 24% of worldwide stock in FDI in the early 1970s, had grown to 50% of stock and 60% of annual flows by the end of the 1980s. The single largest recipient of FDI in services in the 1980s was the European Community, yet another indication of a very distinct geography in world transactions (UNCTAD 2009b:219–20). But investment in services also increased in absolute terms for developing countries. In the 1990s and into the early years of the twenty-first century, the second and third trends continued to shape the global economy. Services accounted for 60% of FDI inflows to developed countries by 2005–07. Mergers and acquisitions took off in the European Union and most recently in some of the most developed Asian countries, especially after the 1997–98 financial crisis. As for the first trend identified for the 1980s, the role of developed countries as the major capital exporters, it continues, including for Japan, which remains probably the leading exporter of capital; what is different is the absence of any new major capital exporter among the developed

Exhibit 2.4 Land Investments to Secure Food Supplies, Select Cases 2006–2009

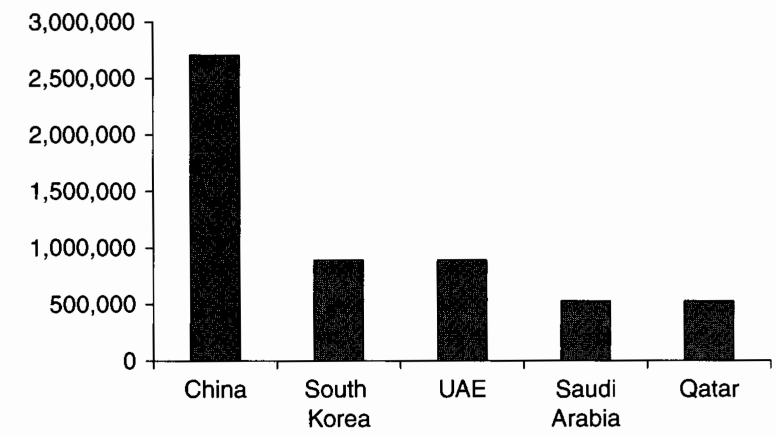
Country Investor	*Country Target*	*Plot Size (hectares)*
Bahrain	Philippines	10,000
China (with private entities)	Philippines	1,240,000
China (ZTE International)	D.R. Congo	2,800,000
China (Chongqing Seed Corp.)	Tanzania	300
China	Zambia	2,000,000
Jordan	Sudan	25,000
Libya	Ukraine	250,000
Libya	Mali	100,000
Qatar	Kenya	40,000
Qatar	Philippines	100,000
Saudi Arabia	Tanzania	500,000
Saudi Arabia (Hail Agricultural Dev. Co.)	Sudan	10,117
Saudi Arabia (Bin Laden Group)	Indonesia	500,000
South Korea (with private entities)	Sudan	690,000
United Arab Emirates (Abraaj Capital)	Pakistan	324,000
United Arab Emirates	Sudan	378,000
Vietnam	Cambodia	100,000
Vietnam	Laos	100,000

Source: IFPRI "Land Grabbing" by Foreign Investors in Developing Countries: Risks and Opportunities, April 2009. http://www.ifpri.org/sites/default/files/publications/bp013all.pdf.

countries and the rise of China as an investor, including a buyer of US government debt (Treasury bonds); by 2005, China was the second largest owner of dollars in the world after Japan, and today it is the largest.

Another major transformation beginning in the 1980s and continuing today is the sharp growth in the numbers and economic weight of transnational corporations (TNCs) firms that operate in more than one country

Exhibit 2.5 Farmland Acquired by Selected Investors, 2006–2009 (in hectares)



Source: Graph by IFPRI, obtained from "Buying farmland abroad: outsourcing's third wave," a news report published by *The Economist,* May 21, 2009, http://www.economist.com/world/international/displaystory.cfm?story_id=13692889.

through affiliates, subsidiaries, or other arrangements. This invites us to rethink the meaning of the "market" for global trade, since so much of it is actually managed by TNCs. The central role played by TNCs is illustrated by the fact that 80% of US international trade in the late 1980s was in the hands of US and foreign TNCs (UNCTC 1991, chap. 3). By 1997, global sales generated by foreign affiliates of TNCs were valued at US$9.5 trillion, larger than the US$7.4 trillion of global trade, of which one-third was itself intrafirm trade (UNCTAD 1998). By 2008, all these figures had grown, signaling the ongoing weight of TNCs and their affiliates and other forms of subcontracting in global trade. And this role keeps expanding. One important example is the recent growth of defense contracting by TNCs: in 2009, TNC employees and subcontractors made up 53% of the American Department of Defense workforce in Iraq and Afghanistan (Schwartz 2009).

Institutional Framework

How does the *world economy* cohere as a system? We cannot take the world economy for granted and assume that it exists simply because international transactions do. One question raised by the developments described earlier is whether today's global economic activities represent a mere quantitative change or actually entail a different international configuration, including changes in the regimes governing the world economy. Elsewhere, I have argued that the ascendance of international finance and services produced a new type of world economy with deregulation regimes that often have sharply negative effects on other industries, especially manufacturing, and on regional development insofar as regions tend to be dominated by nonfinancial industries (Sassen [1991] 2001, part 1; 2008a: chap. 5). These are structural conditions that lead to particular conceptions about how to govern and how to ensure profitability for certain sectors; the effect has been to privilege the needs of certain sectors, notably high finance, over others, such as traditional manufacturing.

One consequence of this new regime is that TNCs have become even more central to the organization and governance of the world economy, and new and vastly expanded older financial exchanges are now an important element in the institutional framework. In addition to financing huge government deficits, the financial firms and exchanges largely serve the needs of TNCs. These in turn emerged as a source of financial flows to developing countries, both through FDI and indirectly because FDI stimulates other forms of financial flows. In some respects, TNCs replaced the traditional transnational banks.[1] The bank crisis of 1982 sharply cut traditional bank loans to developing countries, with more financial resources leaving the region than coming in during much of the 1980s. For better or for worse, TNCs and new types of global financial firms and exchanges stepped into the picture and became strategic organizers of what we now call the global economy.

Affiliates of TNCs and other contracting arrangements have become a key mechanism for organizing and governing the globalization of production and the delivery of services. The growth in their numbers has been sharp (see Exhibit A.2.6). From a world total of 174,900 in 1990, the number of affiliates reached 807,363 by 2008. Partly reflecting the massive FDI flows among developed countries, the number of affiliates in developed countries grew from 81,800 in 1990 to 96,620 in 1996 and 366,881 in 2008. The United States, the United Kingdom, France, Germany, and Japan were the developed countries with the largest numbers. But by far the largest numbers of affiliates are in developing countries, because they are a mechanism for TNCs to access global South markets and resources and to outsource jobs to low-age areas. Their number went from 71,300 in 1990 to 580,638 in 2003. This number fell

to 425,258 in 2008 due to the crisis, but above all due to the growing number of foreign firms setting up headquarter offices rather than merely working through affiliates. Not surprisingly, the largest single concentration is in China, with 16,000 in 1989 to 424,196 in 2002. By 2007, this number was down to 286,232, in good part because the number of foreign firms with headquarter offices in China had risen from 350 in 2002 to 3,429 in 2007. A third area of sharp growth is Central and Eastern Europe, where the total went from 21,000 affiliates in 1990 to 243,750 in 2003, followed by declines in 2008.

Global financial exchanges have emerged as yet another crucial institution for organizing and governing the world economy (see Exhibits 2.6 to 2.8). The central role of financial markets, a key component of the world economy today, was in part brought about by the so-called third-world bank crisis which was formally declared in 1982. This was a crisis for the major transnational banks in the United States, with their massive loans to third-world countries and firms that failed to be repaid. The crisis created a space that small, highly competitive financial firms, which were far less subject to regulation than the traditional transnational banks, moved into. This launched a whole new era in the 1980s in financial speculation, innovation, and levels of profitability. The result was a highly unstable period but one with almost inconceivably high levels of profits that fed a massive expansion in the volume of international financial transactions. Deregulation was another key mechanism facilitating this type of growth, centered in internationalization and speculation, as it opened up one country after another to these and other firms. Markets provided an institutional framework that organized these massive financial flows. Notwithstanding two financial crises, one in 1990–91 and the second in 1997–98, the end of the 1990s saw a steep growth in the value of financial transactions. And although the terrorist attacks of September 2001 in New York City created a temporary crisis, by the end of 2001, stock market capitalization had reached the levels it had attained before September 2001. Since then, the escalation in the value and in the types of financial assets has been even sharper, a subject I return to in Chapter 5 (see Exhibit A.2.5). Considerable effort and resources have gone into the development of a framework for governing global finance, including the development of new institutional accounting and financial reporting standards, minimum capital requirements for banks, and efforts to institute greater transparency in corporate governance. But generally, the leading exchanges and financial centers seem to be able to innovate their way out of regulatory constraints time after time.

Exhibit 2.6 Largest Markets by Domestic Equity Capitalization, 1997, 2000, 2004, 2008

Ten Largest Stock Markets Members in 1997	*1997 Market Capitalization (in US$ bn)*	*1997 Percentage of WFE Members Capitalization*	*Ten Largest Stock Markets in 2000*	*2000 Market Capitalization (in US$ bn)*	*2000 Percentage of WFE Capitalization*
NYSE	8,879.6	41.0	NYSE	11,534.6	37.1
Tokyo	2,160.6	10.0	NASDAQ	3,597.1	11.6
London	1,996.2	9.2	Tokyo	3,157.2	10.2
NASDAQ	1,737.5	8.0	London	2,612.2	8.4
Germany	825.2	3.8	Euronext Paris	1,446.6	4.7
Paris	676.3	3.1	Deutsche Börse	1,279.2	4.1
Switzerland	575.3	2.7	Switzerland	792.3	2.6
Canada (Toronto)	567.6	2.6	Toronto	770.1	2.5
Amsterdam	468.9	2.2	Italy	768.4	2.5
Hong Kong	413.3	1.9	Euronext Amsterdam	640.5	2.1% of
Total WFE[a]			% of Total WFE[a]		85.6
Capitalization for Top Ten		84.5		Capitalization for Top Ten	

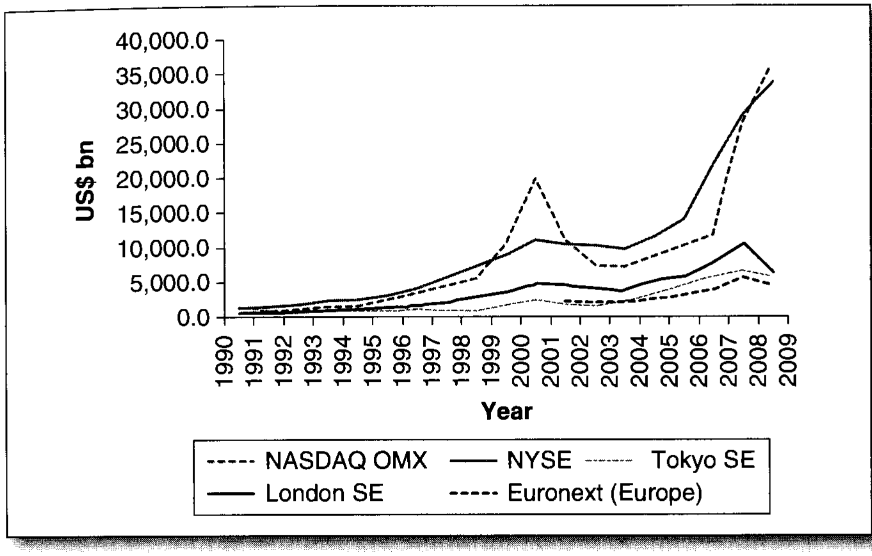
Ten Largest Stock Markets Members in 2004	*2004 Market Capitalization (in US$ bn)*	*2004 Percentage of WFE Members Capitalization*	*Ten Largest Stock Markets in 2008*	*2008 Market Capitalization (in US$ bn)*	*2008 Percentage of WFE Members in 1997 Capitalization*
NYSE	12,707.6	34.45	NYSE Euronext (US)	9,208.9	
Tokyo SE	3,557.7	9.7	Tokyo SE Group	3,115.8	
NASDAQ	3,532.9	9.6	NASDAQ OMX	2,396.3	
London SE	2865.2	7.8	NYSE Euronext (Eur.)	2,101.7	
Euronext	2,441.3	6.6	London SE	1,868.2	
Deutsche Börse	1,184.5	3.2	Shanghai SE	1,425.4	
TSX Group	1,177.5	3.2	Hong Kong Exchanges	1,328:8	
BME Spanish Exchanges	940.7	2.6	Deutsche Börse	1,110.6	
Hong Kong Exchanges	861.5	2.3	TSX Group	1,033.4	
Swiss Exchange	826.0	2.2	BME Spanish Exchanges	948.4	
% of Total WFE[a]		.	% of Total WFE[a]		
Capitalization for Top Ten		81.7	Capitalization for Top Ten		

Notes:

a. World Federation of Exchanges, formerly the Federation Internationale des Bourses de Valeurs (FIBV).

Source: Compiled from World Federation of Exchanges (2004, 2008a, b), year-end figures with calculations of percentages added.

Exhibit 2.7 Total Value of Share Trading for Selected Major Stock Markets, in US$ Billions, 1990–2008

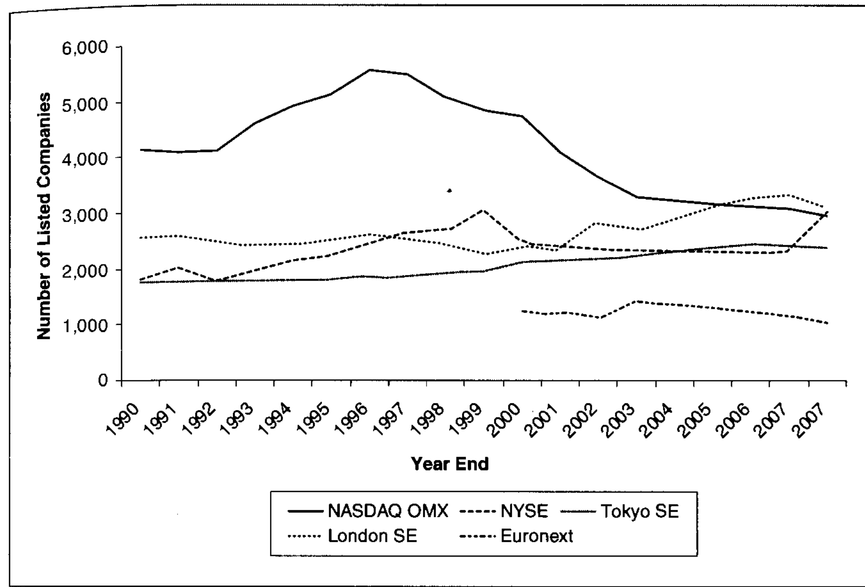


Notes: Euronext (Europe) was formed in late 2000 following a merger of the Amsterdam Stock Exchange, Brussels Stock Exchange, and the Paris Bourse. In 2002, the Lisbon Stock Exchange also merged with Euronext.

Source: Compiled by author using data from World Federation of Exchanges (2008a).

Trade has provided a third set of institutional framings. In 1993, the World Trade Organization (WTO) was set up to oversee cross-border trade, and almost all countries today are members. It has the power to adjudicate in cross-border disputes between countries and represents a potentially key institutional framework for the governance of the global economy. A second component in cross-border trade is the formation of transnational trading blocs. The three major blocs are the European Union (EU; which arose from the erstwhile European Economic Community), the Association of Southeast Asian Nations (ASEAN), and the North American Free Trade Agreement (NAFTA). But beyond these three massive blocs, the number of trade agreements both within and outside the framing of WTO grew sharply in a few years, with more than 70 regional trade agreements by the late 1990s and about 150 by 2004. The role of FDI in international trade also grew sharply: by the mid-1990s, 143 countries had adopted special regimes to attract FDI, up from twenty in 1982 (UNCTAD 1998, chap. 3).

Exhibit 2.8 Total Number of Listed Companies for Selected Major Stock Markets, 1990–2008



Notes: Euronext (Europe) was formed in late 2000 following a merger of the Amsterdam Stock Exchange, Brussels Stock Exchange, and the Paris Bourse. In 2002 the Lisbon Stock Exchange also merged with Euronext.

Source: Compiled by author using data from World Federation of Exchanges (2008b).

The specifics of the major trading agreements and probably most of the other agreements vary sharply, but they all provide for the cross-border mobility of capital and, importantly, an emphasis on the free movement of financial services as part of the international trade in services. Although trade has received far more attention, it is in many ways a less significant factor in changing the institutional apparatus of the world economy than is finance. There has long been considerable trade among the countries in each major bloc, and many import tariffs were already low for many goods in many countries. Beyond trade, the EU, NAFTA, and ASEAN blocs represent a further formalization of capital as a transnational entity, one that operates through TNCs and global trade.

These realignments have had pronounced consequences. The extremely high level of profitability in the financial industry, for example, has devalued manufacturing *as production* and shifted investors' focus toward its value as a financial investment. This is illustrated by the rise of the notion of shareholder value: a shift in emphasis from production to securing good stock market valuations of a manufacturer's publicly listed shares. Second, much of the policy around deregulation has had the effect of making finance so profitable that it takes investment away from manufacturing. Third, finance can deliver super-profits merely by maximizing the circulation of and speculation in money—that is, multiplying buying and selling transactions over a given period of time with each such transaction a possible source of profit. Manufacturing does not have this option because capital for production is caught in much longer cycles (from six to nine months to produce a car or a plane), and resale values are not where a company makes its profits. Fourth, beginning in the 1980s, a variety of financial instruments were created that made it possible to sell an increasingly broad range of household debts such as, credit cards, mortgages, student loans, at a profit. A simple illustration is the bundling of a large number of home mortgages so as to reach certain value thresholds, no matter that these are negative values (debts), into instruments that can be sold many times over, even though the number of houses involved stays the same. *Securitization* is the general term used to describe this and other innovations that made it possible to transform various types of financial assets and debts into marketable instruments. This trend continues today with the invention of ever more complex and speculative instruments, such as credit default swaps; these grew from US$1 trillion in 2001 to US$62 trillion in 2007, more than the value of global GDP at US$54 trillion, and became the immediate source of the 2008 financial crisis (see Chapter 8). These new financial instruments create new types of risks and a potential for greater volatility. In contrast, manufactured goods do not allow (at least till now) such speculative options; they can become the source of speculative profits via shareholder value, but this takes us back to banking and finance. The good is made and sold once; when the good enters the realm of circulation, it enters another set of industries, for example, trading firms and wholesalers, and the profits from subsequent sales accrue to these sectors.

These changes in the geography and composition of international transactions and the framework through which these transactions are implemented have contributed to the formation of new strategic sites in the world economy. This is the subject of the next section.

Strategic Places

Four types of places, above all others, symbolize the new forms of economic globalization: export processing zones, offshore banking centers, high-tech districts, and global cities. There are also many other locations where international transactions materialize. Harbors continue to be strategic in the world of growing international trade, and the major global harbors in the world contribute to a large demand for highly specialized legal, accounting, financial, and similar services. Massive industrial districts in major manufacturing export countries, such as the United States, Japan, and Germany, are in many ways strategic sites for international activity and specifically for production for export. None of these locations, however, captures the prototypical image of today's global economy the way the first four do.

Here, I do not examine export processing zones, an innovation that began in the 1960s and took off in the 1980s (e.g., Lim 1982) or high-tech districts (e.g., Saxenian 1996) because their activities have a highly intermediated relationship to cities. My argument is, briefly, that this intermediated relationship is there when manufacturing is part of a corporate organization: the more it gets off-shored or, in the case of high-tech, the more global its markets and innovative its products, the more its umbrella corporation will need highly specialized legal, financial, accounting, and other such services to manage the manufacturing part. This is the indirect growth effect for the urban specialized services sector; for this effect to occur, it matters less where manufacturing is located than whether it is part of a corporate organization. I return to these issues when I examine the role of manufacturing in the expansion of the specialized corporate services sector in Chapter 4.

Export processing zones, a less familiar entity than high-tech districts (made famous by California's Silicon Valley), deserve a brief description; I develop this at length in Sassen (1988, 2008c). Such zones tend to be located in low-wage countries where firms from developed countries can secure low wages for highly labor-intensive or high-health-risk work. Labor-intensive manufacturing, processing, and assembling can be done at lower costs and with far less demanding environmental, workplace, and labor regulations than in the home countries of the firms. What gets worked on typically is brought in from and re-exported to the home countries of these firms. Developed countries had to implement a variety of legislative pieces to make this possible at a time when Keynesian tariffs and protections were the norm in developed countries. The central rationale for these zones is access to cheap labor for the labor-intensive stages of a firm's production process. Tax breaks and lenient workplace standards in the zones are additional incentives, whose granting also required legislative changes in the developing countries. These zones became a key mechanism in the internationalization of production that took off in the 1980s; but the first such zones were implemented in the late 1960s, partly as a response to the strength of labor unions at the time in developed countries and the emergence of strong legislatures willing to impose stricter environmental, workplace, and worker health standards. In addition to these zones, less formalized arrangements proliferated in the 1990s; those other arrangements are usually referred to as *outsourcing*. The growth in the number of affiliates described earlier is one element in the infrastructure for outsourcing.

Now we turn to global cities and offshore banking centers, two sites of more direct concern to the analysis in this book.

Global Cities

Global cities are strategic sites for the management of the global economy and the production of the most advanced services and financial operations that have become key inputs for that work of managing global economic operations. The growth of international investment and trade and the need to finance and service such activities have fed the growth of these functions in major cities. The erosion of the role of the government in the world economy, which was much larger when trade was the dominant form of international transaction, has shifted some of the organizing and servicing work from governments to specialized service firms and global markets in services and finance.

A second, much less noted, shift of functions to this specialized service sector concentrated in cities comes from the headquarters of global firms. The added complexity and uncertainties involved in running global operations and the need for highly specialized knowledge about the law, accounting, business cultures, and so on, of large numbers of countries has meant that a growing component of headquarter functions is now being outsourced to specialized corporate services firms. Therefore, today there are two sites for the production of headquarter functions of global firms: one is the headquarters proper, and the other is the specialized service sector disproportionately concentrated in major cities. Thus, when firms globalize their operations, they are not necessarily only exporting jobs, as is usually argued. They export certain jobs, for example, labor-intensive manufacturing and clerical work, but they actually may be adding jobs to their top headquarter functions. To illustrate, when Detroit lost many of its manufacturing jobs, New York City gained specialized service jobs. This was in response to the work of major auto manufacturing headquarters becoming increasingly complicated and the increased demand for state-of-the-art legal, accounting, finance, and insurance advice, not to mention consulting of various kinds and new types of public relations efforts. Headquarters of firms that operate mostly globally tend to be located in global cities. But

given the option to outsource the most complex and variable headquarter functions to the specialized services sector in a global city, headquarters can actually locate anywhere, a trend evident in the United States; it is less common in countries where there is only one major internationally connected city.

Here, I briefly examine these developments, first by presenting the concept of the global city and then some of the empirical evidence showing the concentration of major international markets and economic sectors in various cities.

Since the 1980s, the specific forms of the world economy have created particular organizational requirements that differ from those of the preceding phase, which had been dominated by large US transnational corporations and banks seeking to develop markets for American products and bank accounts worldwide. The emergence of global markets for finance and specialized services, along with the growth of investment as a major type of international transaction, has created a demand for new types of organizational forms. These have contributed to the expansion in command functions and the demand for specialized services for firms, whether the firm is in agriculture, mining, transport, finance, or any other major sector. Much of this activity is not encompassed by the organizational form of the transnational firm or bank, even when these types of firms account for a disproportionate share of international flows. Furthermore, much of this activity goes beyond the power of TNCs, a power often invoked to explain the fact itself of economic globalization.

Of interest at this point are some of the hypotheses that launched the world city and global city analyses, especially those that examine the spatial and organizational forms of economic globalization and the actual work of running transnational economic operations. The aim of these hypotheses was to recover organizational forms other than that of the headquarters of powerful firms, which is the typical approach. Thus, these hypotheses also include particular types of places and work processes as part of the organizational framings for the current forms of economic globalization. In one of the first formulations that launched this new type of analysis, Friedmann and Wolff (1982) started from cities and emphasized the concentration of command and coordination functions of operations (see also Friedmann 1986). I proposed similar hypotheses but started from a somewhat different angle: the central proposition in the global city model (Sassen [1991] 2001) is that it is precisely the *combination* of geographic dispersal of economic activities with simultaneous system integration that gave cities a strategic role in the current phase of the world economy. Rather than becoming obsolete because of global geographic dispersal and integration made possible by information technologies, cities became strategic. In a very early formulation (Sassen-Koob 1982), I emphasized the growing need for long-distance management and how, ironically, this new need would also generate all kinds of new professional jobs and firms, even though at the time most major cities in the United States and Europe were in severe economic and fiscal crisis. To the concentration of command and coordination functions emphasized by Friedmann and Wolff (1982), I added two additional functions: (1) cities are post-industrial production sites for the leading industries of this period—finance and specialized services—and (2) cities are transnational marketplaces where firms and governments from all over the world can buy financial instruments and specialized services. These early formulations emerged long before this type of analysis exploded into a rapidly growing scholarship from the 1990s onward.[2]

The territorial dispersal of economic activity at the national and world scale implied by globalization has created new forms of territorial centralization. One critical and often overlooked fact is that this territorial dispersal is happening under conditions of ongoing concentration in ownership and control. Dispersal might have contributed to a parallel decentralization, even democratizing, of ownership and control. It did not. One way of understanding this empirically is to examine some of the figures on the growth of transnational enterprises and their affiliates. Exhibit A.2.6 shows the vast number of TNC affiliates. This is evidence of dispersal along with ongoing central ownership and appropriation of profits. Further, as already discussed, the transactions among firms and their affiliates and other types of contracting account for a good share of global trade; this intrafirm trade is not, strictly speaking, *free* market trade, even though the imagery around the growth of global trade is centered on the expansion of free markets. That this is managed trade becomes critical for understanding the role of cities in the global economy because global management requires a mix of specialized servicing and command functions generated in global cities. There is not much of an invisible hand there.

The financial industry has a similar dynamic of dispersal and global integration: a growth in the number of cities integrated in the global financial network and a simultaneous increased concentration of value managed at the top of the hierarchy of centers (see Exhibits 2.6 to 2.8 and A.2.5). We can identify two distinct phases. Up to the end of the 1982 third-world debt crisis, the large transnational banks dominated the financial markets in terms of both the volume and the nature of financial transactions. After 1982, this dominance was increasingly challenged by other financial institutions and the major innovations they produced. These challenges led to a transformation in the leading components of the financial industry, a proliferation of financial institutions, and the rapid internationalization of financial markets. The marketplace and the advantages of agglomeration—and, hence, cities—assumed new significance beginning in the mid-1980s. These developments led simultaneously to (1) the incorporation of a multiplicity of worldwide markets into a global system that fed the growth of the industry after the 1982 debt crisis and (2) new forms of concentration, specifically the centralization of the industry in a network of leading financial centers. Hence, in the case of the financial industry, to focus only on the large transnational banks would exclude precisely those sectors of the industry where much of the new growth and production of innovations was launched in the 1980s and is continuing today. It would also leave out an examination of key components of finance—activities, firms, and markets—located in cities.

In brief, the geographic dispersal of plants, offices, and service outlets and the integration of a growing number of stock markets around the world could have been accompanied by a corresponding decentralization in control and central functions. But that did not occur.

If some of the evidence on financial flows is organized according to the places where the markets and firms are located, we see both distinct patterns of concentration and a larger number of cities that become part of this concentration. For example, thirty-nine of the 100 largest banks and twenty-three of the twenty-five largest securities houses in 1991 were located in only three countries (Japan, the United States, and the United Kingdom; see Exhibit A.2.5a), mostly in Tokyo, New York and London. This pattern persisted throughout the late 1990s, notwithstanding multiple financial crises in the world and particularly in Japan, and has only recently declined (see Exhibits A.2.5a and b). Thus between 2003 and 2009, the United States actually went from having ten of the largest banks to having only six. The top three countries went from holding twenty-three of the largest banks to sixteen in 2009.

The full impact of deregulation and the growth of financial markets can be seen in the increases in value and numbers of firms listed in all the major stock markets in the world (see Exhibit 2.6 to 2.8). The market value of listings rose from US$2.8 trillion in 1990 to US$9.4 trillion in 1997 and US$12.9 trillion in 2004 in the New York Stock Exchange, and from US$1 trillion to US$2 trillion and $2.8 trillion in the London Exchange for those same years. Similar patterns, although at lower orders of magnitude, are evident in the other stock markets listed in Exhibits 2.7 and 2.8. The concentration in the operational side of the financial industry is made evident by the fact that most of the stock transactions in the leading countries are concentrated in a few stock markets. The Tokyo exchange accounts for 90% of equities traded in Japan; New York accounts for about two-thirds of equities traded in the United States; and London accounts for most of the trading in the United Kingdom. There is, then, a disproportionate concentration of worldwide capitalization in a few cities and of national capitalization typically in one city in each country.

Certain aspects of the territorial dispersal of economic activity may have led to some dispersal of profits and ownership. Large firms, for example, have increased their subcontracting to smaller firms worldwide, and many national firms in the newly industrializing countries have grown rapidly, thanks to investment by foreign firms and access to world markets, often through arrangements with transnational firms. Yet this form of growth is ultimately part of a chain in which a limited number of corporations continue to control the end product and reap most of the profits associated with selling on the world market. Even industrial homeworkers in remote rural areas are part of that chain (e.g., Beneria and Roldan 1987; Russell and Rath 2002). Subprime loans, for example, can be seen as an effort by high finance to capture low-end wealth into the chain. Simultaneously, new instruments extend the chain upward. For instance, the securitization of US home mortgages in Euros makes them directly accessible to European investors.

But this geographic dispersal of a corporation's activities is organized centrally and hence creates a need for expanded central control and management work, much of it produced in cities. It thereby feeds the strategic role of cities in the world economy. The mix of globally dispersed operations of firms and the concentration of management functions enables a worldwide process of capture of more and more low-end wealth and the capital of small national firms.

Offshore Banking Centers and Onshore Preferential Tax Regimes

Offshore banking centers are yet another important spatial point in the worldwide circuits of financial flows, although they are less complex than global cities (see Exhibit A.2.7). Such centers are, above all else, tax shelters, a response by private-sector actors to government regulation.[3] The implementation of these centers began in the 1970s. Diverse types of international tax shelters have existed for a long time. But the 1970s marked a juncture—a growing gap between economic internationalization and government control over the economy in developed countries. These centers, both in the form of tax havens and of onshore preferential tax regimes, emerged as one option for avoiding government control in a context of expanding globalization. They are, to a large extent, paper operations.

The Cayman Islands illustrate an early phase in this development (Roberts 1994; IMF 1999, 2009). By 1997, they were ranked as the seventh largest international banking operation in the world and the fifth largest financial center after London, Tokyo, New York, and Hong Kong, according to International Monetary Fund (IMF) data (IMF 1999). They also were still the world's second largest insurance location with gross capital of US$8 billion in 1997. The value of deposits held in banks in the Cayman Islands grew from US$250 billion in 1990 to US$640 billion in 1997. Its 593 banks in 1997 included forty-seven of the world's top fifty banks. But even though that tiny country supposedly has well over 500 banks from all around the world, only sixty-nine banks have offices there, and only six are "real" banks for cashing and depositing money and other transactions. Many of the others exist only as folders in a cabinet (Walter 1989; Roberts 1994). As of 2008, there were a total of 9,000 investment fund entities operating in the Cayman Islands with assets of up to $1.8 trillion. There were also 279 banks with assets of about $35 billion and a total of 777 insurance entities (IMF 2009: Table 2).

These centers are located in many parts of the world. The majority of Asian offshore centers are located in Singapore and Hong Kong; Labuan (Malaysia) and Macau are also significant centers. In the Middle East, Bahrain took over from Beirut in 1975 as the main offshore banking center, with Dubai close behind. In the South Pacific, major centers are located in Australia and New Zealand, and smaller offshore clusters are in Vanuatu, the Cook Islands, Nauru, and Samoa. In the Indian Ocean, centers cluster in the Seychelles and in Mauritius. In Europe, Switzerland tops the list, and Luxembourg is a major center; others are Cyprus, Madeira, Malta, the Isle of Man, and the Channel Islands. Several small places are also struggling to compete with the established centers: Gibraltar, Monaco, Liechtenstein, and Andorra. The Caribbean has Bermuda, the Cayman Islands, Bahamas, Turks and Caicos, and the British Virgin Islands.

Why do such centers exist? This question is especially pertinent given the massive deregulation of major financial markets beginning in the 1980s, which included the establishment of de facto "free international financial zones" in several major cities in highly developed countries. Some of these are basically onshore preferential tax regimes. The Tax Justice Network (2007) has tracked these developments closely, preparing, among other documents, a list of narrowly defined tax havens and offshore banking centers, as well as a list of a more broadly defined range of countries offering preferential tax regimes with negative consequences for the larger social order, for example, tax losses for governments that can translate into cuts of social programs.

Both offshore and onshore centers were set up to side-step the system for regulating exchange rates and balance-of-payments imbalances contained in the Bretton Woods agreement of 1945. The Bretton Woods agreement set up a legal framework for the regulation of international transactions, such as foreign currency operations, for countries or banks wanting to operate internationally. In finance, *offshore* does not always mean overseas or foreign; basically, the term means that less regulation takes place than *onshore*—the latter describing firms and markets not covered by this special legislation. Compared with the major "international zones" and onshore preferential tax regimes, offshore banking centers offer certain types of additional flexibility: secrecy, openness to *hot* money and to certain quasilegitimate options not quite allowed in the deregulated markets of major financial centers, and tax minimization strategies for international corporations.

The best early example of onshore preferential tax regimes for financial activity is the Euromarket, which started in the 1960s and expanded rapidly, with London at the center of the Euromarket system. Euromarkets were initially Eurodollar markets, where banks from the United States and other countries could do dollar transactions and avoid US regulations. They eventually expanded to include other currencies and more assets have been made liquid through securitization and denomination in Euros. The Euromarkets are significant in international finance. According to the Bank for International Settlements, the Eurocurrency markets grew from US$9 billion in 1964 to US$57 billion in 1970, US$661 billion in 1981 to US$17 trillion in 2004 (BIS 2005). The oil crisis was important in feeding this growth. In the 1980s, much growth came through Eurobonds and Eurosecurities—bonds and securities traded offshore, that is, outside the standard regulatory framework. Securitization was crucial to launch the new financial era by making liquid what had been formerly illiquid forms of debt. Since the launch of the euro in January 1999, Euromarkets have changed and grown rapidly, with the current value of outstanding international debt in both euro and legacy currencies reaching US$1.6 trillion in 1998 (IMF 1999, part 2) to 2.3 trillion in 2005 (BIS 2005).

Other early onshore examples, as of 1981, were international banking facilities in the United States, mostly in New York City, that allowed US banks to establish special adjunct facilities to accept deposits from foreign entities free of reserve requirements and interest rate limitations. Tokyo, finally, saw the development of a facility in 1986 that allowed transactions in the Asian dollar market to be carried out in that city; this meant that Tokyo got some of the capital being transacted in Hong Kong, Singapore, and Bahrain—all Asian dollar centers.

The first phase of the current deregulation regime was implemented in the 1980s in some countries, notably the United States, the UK, and France. London's much-noted "big bang" and the less-noted "petit bang" in Paris are instances of such a process of deregulation of financial markets. It brought much offshore capital back into onshore markets, especially in New York and London. The return flow of capital helped convince reluctant governments worldwide to proceed with deregulation of the financial markets in the 1990s. This in turn led to a large number of so-called "adjustment" crises in those countries, which began to decimate small-scale national firms and the older traditional middle-class sectors (Sassen [1991] 2001: chap. 4).

In brief, offshore centers represent a highly specialized location for certain types of international financial transactions. They are also buffer zones in case the governments of the leading financial centers in the world should decide to re-regulate the financial markets. On the broader scale of operations, however, they represent a fraction of the financial capital markets now being managed from the growing network of global cities.

Impact of the US War on Terrorism on Off-Shore Banking Secrecy

In September of 2006, an article appeared in the *The Wall Street Journal* revealing that the Treasury Department and the CIA, United States government agencies, had created and used a program to access the Society for Worldwide Interbank Financial Telecommunication (SWIFT) transaction database after the September 11 attacks.[4] This program was named Terrorist Finance Tracking Program. SWIFT quickly came under pressure for compromising the data privacy of its customers by letting a foreign government agency access sensitive personal data, and the Belgian government declared that the SWIFT dealings with US government authorities were, in fact, a breach of Belgian and European privacy laws (Brand 2006).

In response, the European Union negotiated an agreement with the United States government to permit the transfer of intra–EU SWIFT transaction information to the United States under certain circumstances. An interim agreement was signed without European Parliamentary approval by the European Council on November 30, 2009, the day before the Lisbon Treaty—which would have prohibited such an agreement from being signed under the terms of the Codecision procedure—formally came into effect. On February 11, 2010, the European Parliament decided to reject the interim agreement between the EU and the USA with 378 to 196 votes (Constant 2010).

Conclusion: After the Pax Americana

The world economy has never been a planetary event; it has always had more or less clearly defined boundaries. Moreover, although most major industries were involved throughout, the cluster of industries that dominated any given period changed over time, contributing to distinct structurations of the world economy. Finally, the institutional framework through which the world economy coheres has also varied sharply, from the earlier empires through the quasi-empire of the Pax Americana—the period of US political, economic, and military dominance, especially the two decades after World War II—and its decay in the 1970s.

It is in this decaying Pax Americana, with the rebuilt economies of Western Europe and Japan reentering the international markets, that we see emerging a new phase of the world economy. There is considerable agreement among specialists that in the mid-1970s, new patterns in the world economy became evident. First, the geographical axis of international transactions changed from North–South to East–West. In this process, significant parts of Africa and Latin America became unhinged from their hitherto strong ties with world markets in commodities and raw materials. Second, there was a sharp increase in the weight of FDI in services and the role played by international financial markets. Third, there was the breakdown of the Bretton Woods agreement, which had established the institutional framework under which the world economy had operated since the end of World War II. This breakdown was clearly linked to the decline of the United States as the single dominant economic power in the world. Japanese and European multinationals and banks became major competitors with US firms. The financial crises in Asia in the 1990s once again strengthened the role of the North Atlantic system in the global economy. But the rise of China, the massive indebtedness of the United States, and its growing dependence on Japan and China for financing that debt point to the possibility of a final blow to the remnants of the Pax Americana that once provided a United States–centered global order.

This does not mean that US global firms are suffering. While there is disagreement on this point, I argue that a key feature of the current phase of globalization is that global firms, whether American, European, or Asian, are increasingly exiting the old arrangements that connected them to their respective nation-states through protectionisms of various sorts and strong-hand politics by their governments aimed at protecting their national firms whenever possible. These arrangements were a critical part of the Pax Americana, with the United States playing a key role in enabling its firms to dominate the world economy. By the end of the 1990s, the global economy had become largely structured in terms of global markets and multiple

protections for global firms in all the countries that had deregulated their economies to become part of the global economy. Although the US government remains the major military and economic power in the world, its government is in a far more dubious position: It continues to extract exceptions from other governments and international institutions for itself and major US global firms. But it collects a declining share of taxes from US global firms. And all along, many US industries are in fast decline.

These realignments are the background for understanding the position of different types of cities in the current organization of the world economy. A limited but growing number of global cities are the sites for the major financial markets and the leading specialized services necessary to manage global operations. And a large number of other major cities have lost their role as top export centers for manufacturing precisely because of the worldwide dispersal of factories. This shift in roles among major cities in the new world economy will be the focus of Chapter 3.

Notes

1 Foreign direct investments by TNCs may be financed through transnational banks or the international capital markets. In the mid-1980s, the share of the latter began to grow sharply (see Sassen [1991] 2001: chap. 4), and it continues to do so today.

2 For one of the best examinations of the evolution of several distinct strands in urban research since the 1980s, see Paddison's Introduction in the *Handbook of Urban Studies* (Paddison 2001); see also Taylor et al. 2007; Banerjee-Guha 2010.

3 There is no definitive list of tax havens and offshore financial centers. Exhibit A.2.7 shows the listings produced by OECD (Organisation for Economic Cooperation and Development) and by the Tax Justice. The main listings of tax havens have been developed by the OECD as part of the "harmful tax practices" of its Committee on Fiscal Affairs, a project launched in 1998. The ambiguity of the notion of a tax haven is partly due to the fact that almost any jurisdiction can have some tax haven or onshore preferential tax regime; a smaller number are usually identified as "pure" tax havens.

4 The Society for Worldwide Interbank Financial Telecommunication (SWIFT) operates a worldwide financial messaging network that exchanges messages between banks and other financial institutions. SWIFT also markets software and services to financial institutions, much of it for use on the SWIFTNet Network, and ISO 9362 bank identifier codes (BICs) are popularly known as "SWIFT codes." The majority of international interbank messages use the SWIFT network. As of September 2010 SWIFT linked 9,000+ financial institutions in 209 countries. SWIFT transports financial messages but does not hold accounts for its members and does not perform any form of clearing or settlement. See http://www.swift.com/about_swift/company_information/index.page?lang=en.

Chapter 2 Appendix

Exhibit A.2.1 Inflows and Outflows of Foreign Direct Investment (FDI), 1980–2008

		Developed Countries		*Developing Countries*		*Transition and Eastern Europe*		*All Countries*	
	Year	*Inflows*	*Outflows*	*Inflows*	*Outflows*	*Inflows*	*Outflows*	*Inflows*	*Outflows*
Value (US$bn)	1980–1984	195.69	206.25	93.08	11.61	0.05	—	288.81	217.86
	1985–1989	525.66	665.30	113.07	47.52	0.03	—	638.76	712.82
	1990–1994	693.37	1,035.04	308.57	135.51	6.81	2.93	1,008.75	1,173.48
	1995–1999	2,091.82	2,682.22	872.70	311.92	36.81	8.68	3,001.33	3,002.82
	2000–2004	2,930.98	3,520.36	1,122.63	433.31	78.22	35.40	4,131.83	3,989.07
	2005	613.09	741.97	329.29	122.71	30.95	14.31	973.33	878.99
	2006	972.76	1,157.91	433.76	215.28	54.55	23.72	1,461.07	1,396.92
	2007	1,358.63	1,809.53	529.34	285.49	90.87	51.50	1,978.84	2,146.52
	2008	962.26	1,506.53	620.73	292.71	114.36	58.50	1,697.35	1,857.73
	2005–2008	3,906.74	5,215.94	1,913.13	916.19	290.72	148.03	6,110.59	6,280.16
Share of Total	1980–1984	67.76%	94.67%	32.23%	5.33%	0.02%	—	100%	100%
	1985–1989	82.29%	93.33%	17.70%	6.67%	0.00%*	—	100%	100%
	1990–1995	68.74%	88.20%	30.59%	11.55%	0.67%	0.25%	100%	100%
	1995–2000	69.70%	89.32%	29.08%	10.39%	1.23%	0.29%	100%	100%
	2000–2004	70.94%	88.25%	27.17%	10.86%	1.89%	0.89%	100%	100%
	2005	62.99%	84.41%	33.83%	13.96%	3.18%	1.63%	100%	100%
	2006	66.58%	82.89%	29.69%	15.41%	3.73%	1.70%	100%	100%
	2007	68.66%	84.30%	26.75%	13.30%	4.59%	2.40%	100%	100%
	2008	56.69%	81.09%	36.57%	15.76%	6.74%	3.15%	100%	100%
	2005–2008	63.93%	83.05%	31.31%	14.59%	4.76%	2.36%	100%	100%
Growth Rate	2001	–46.74%	–38.65%	–16.14%	–38.51%	38.98%	–13.96%	–40.62%	–38.57%
(from previous year)	2002	–25.67%	–26.93%	–18.33%	–40.10%	16.12%	69.20%	–23.25%	–28.04%
	2003	–18.35%	5.16%	4.58%	–8.26%	76.23%	129.76%	–10.25%	5.00%
	2004	14.65%	56.76%	57.83%	164.48%	52.30%	32.39%	30.03%	65.01%
	2005	48.02%	–6.68%	13.39%	1.88%	2.11%	1.22%	32.45%	–5.45%
	2006	58.67%	56.06%	31.73%	75.44%	76.26%	65.81%	50.11%	58.92%
	2007	39.67%	56.28%	22.04%	32.61%	66.58%	117.10%	35.44%	53.66%
	2008	–29.17%	–16.74%	17.26%	2.53%	25.86%	13.57%	–14.22%	–13.45%

Note: Asterisk (*) denotes less than .005.

Source: Calculations based on UNCTAD (2009a).

Exhibit A.2.2 Sectoral Distribution of Foreign Direct Investment Stock for the Largest Developed Home Countries and the Largest Developed and Developing Host Countries, Select Years, 1970–1990 (US$ billions and percentage)

	1971–1970	1976–1975	1981–1980	1986–1985	1981–1990	1975	1980	1985	1990	1990	1970	1975	1980	1985	1990
Group of Countries and Sectors	*Average Annual Growth*	*Billions of Dollars*	*Rate in Percentage*	*Share in Percentage*											
A. Outward stock															
Developed countries[a] Primary	29	58	88	115	160	14	8.7	5.5	6.8	6.2	22.7	25.3	18.5	18.5	11.2
Secondary	58	103	208	240	556	11.7	15.1	2.9	18.3	10.3	45.2	45	43.8	38.7	38.7
Tertiary	41	68	179	265	720	10.4	21.4	8.2	22.1	14.9	31.4	27.7	37.7	42.8	50.1
Total	129	229	475	620	1436	11.7	15.7	5.5	18.3	11.7	100	100	100	100	100
B. Inward stock															
Developed countries[b] Primary	12	17	18	39	94	4.7	5.9	16.7	19.2	18	16.2	12.1	6.7	9.2	9.1
Secondary	44	79	148	195	439	10.7	13.4	5.7	17.6	11.5	60.2	56.5	55.2	46.2	42.5
Tertiary	17	44	102	188	499	16.5	18.3	13	21.6	17.2	23.7	31.4	38.1	44.5	48.4
Total	73	140	268	422	1032	11.3	13.9	9.5	19.6	14.4	100	100	100	100	100

	1971–1970	1976–1975	1981–1980	1986–1985	1981–1990	1975	1980	1985	1990	1990	1970	1975	1980	1985	1990
Group of Countries and Sectors	*Average Annual Growth*	*Billions of Dollars*	*Rate in Percentage*	*Share in Percentage*											
Developing countries/economies[c]															
Primary	—	7	17	31	46	—	19.4	12.8	8.2	10.5	—	20.6	22.7	24	21.9
Secondary	—	19	41	64	102	—	16.6	9.3	9.8	9.5	—	55.9	54.6	49.6	48.6
Tertiary	—	8	17	34	62	—	16.3	14.9	12.8	13.8	—	23.5	22.7	26.4	29.5
Total	—	34	75	129	210	—	17.1	11.4	10.2	10.8	—	100	100	100	100

a. Australia, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands, United Kingdom, and United States; together these countries accounted for almost 90% of outward FDI stock in 1990. 1970 and 1971–1975 growth data exclude Australia and France.

b. Australia, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands, United Kingdom, Spain, and United States; together these countries accounted for approximately 72% of total inward FDI stock in 1990. 1970 and 1971–1975 growth data exclude Australia, France, and Spain.

c. Argentina, Brazil, Chile, China, Colombia, Hong Kong, Indonesia, Malaysia, Mexico, Nigeria, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand, and Venezuela. Together these countries accounted for 68% of total inward FDI in developing countries.

Source: UNCTAD (1993:62)

Exhibit A.2.3 Distribution of Inward and Outward Foreign Direct Investment Stock by Sector, 1990 and 2007

	Inward Stock		*Outward Stock*	
	1990	*2007*	*1990*	*2007*
World:				
Primary	9.4%	7.5%	8.8%	7.2%
Manufacturing	41.1%	27.0%	43.5%	26.0%
Services	48.8%	63.8%	47.4%	64.9%
Private buying & selling of property	0.0%	0.0%	0.0%	0.0%
Unspecified	0.7%	1.6%	0.2%	1.9%
Developed Economies:				
Primary	9.6%	7.5%	8.8%	7.8%
Manufacturing	40.6%	28.1%	43.6%	28.4%
Services	49.3%	63.0%	47.4%	61.9%
Private buying & selling of property	0.0%	0.1%	0.0%	0.0%
Unspecified	0.6%	1.4%	0.2%	0.0%
Developing Economies:				
Primary	8.4%	6.3%	12.7%	2.4%
Manufacturing	43.6%	24.0%	35.5%	8.6%
Services	46.7%	67.8%	48.5%	87.3%
Private buying & selling of property	—	—	—	—
Unspecified	1.4%	1.9%	3.3%	1.8%
Transition Economies:[a]				
Primary	—	22.9%	—	27.6%
Manufacturing	—	26.0%	—	8.1%
Services	—	45.0%	—	59.2%
Private buying & selling of property	—	0.0%	—	
Unspecified	—	6.1%	—	5.2%

a. Transition Economies include non-EU countries in Eastern and Southeast Europe and the former Soviet Republics that comprise the CIS.

Source: Compiled from data contained in UNCTAD (2009b): 219–20

Exhibit A.2.4 Foreign Direct Investment Flows by Sector, 1989–1991 and 2005–2007

	Inflows		*Outflows*	
	1989–1991	*2005–2007*	*1989–1991*	*2005–2007*
World:				
Primary	6.9%	11.6%	4.5%	10.0%
Manufacturing	34.2%	24.0%	37.3%	24.4%
Services	50.4%	59.0%	50.4%	57.9%
Other/Unspecified	8.4%	5.4%	7.8%	7.8%
Developed Economies:				
Primary	5.9%	11.7%	4.5%	10.0%
Manufacturing	31.4%	21.9%	36.8%	25.1%
Services	54.9%	60.0%	50.8%	56.7%
Other/Unspecified	7.7%	6.4%	7.8%	8.2%
Developing Economies:				
Primary	11.2%	9.2%	4.7%	8.8%
Manufacturing	46.5%	31.0%	56.9%	17.3%
Services	30.8%	56.7%	32.9%	69.9%
Other/Unspecified	11.5%	3.2%	5.5%	4.0%
Transition Economies:[a]				
Total	—	100.0%	—	100.0%
Primary	—	30.1%	—	325.6%
Manufacturing	—	16.4%	—	36.3%
Services	—	52.3%	—	–228.9%
Other/Unspecified	—	1.3%	—	–33.0%

Notes:

a. Transition Economies include non-EU countries in Eastern and Southeast Europe and the former Soviet Republics that comprise the CIS.

Source: Compiled from data contained in UNCTAD (2009b): 220–21

Exhibit A.2.5a A Concentration of World's Fifty Largest Banks, 1991 and 1997 (US$ billions and percentage)

1991					
Number of Firms	*Assets (US$ bn)*	*% of Top 50*	*Capital (US$ bn)*	*% of Top 50*	
Japan	27	6,572.42	40.7	975.19	40.6
United States	7	913.01	5.7	104.73	4.4
United Kingdom	5	791.65	4.9	56.75	2.4
Subtotal	39	8,277.08	51.3	1,136.67	47.4
Total for Top 50	50	16,143.35	100.0	2,400.44	100.0
1997					
Number of Firms	*Assets (US$ bn)*	*% of Top 50*	*Capital (US$ bn)*	*% of Top 50*	
1997					
Japan	12	6,116.31	36.4	1,033.42	45.8
United States	6	1,794.82	10.7	242.00	10.7
United Kingdom	5	1,505.69	9.0	130.59	5.8
Subtotal	23	9,416.81	56.0	1,406.01	62.3
Total for Top 50	50	16,817.69	100.0	2,257.95	100.0

Note: 1997 data ranked by assets as determined by Dow Jones Global Indexes in association with WorldScope; figures are based on each company's 1997 fiscal-year results, except data on Japanese banks, which are based on fiscal 1998 results.

Source: Author's calculations based on "World Business" (1992; 1998).

Exhibit A.2.5b A Concentration of World's Fifty Largest Banks, 2003 and 2009 (US$ billions and percentage)

2003			
Number of Country	*Combined Assets Top Banks*	*% of (US$ bn) Top 50*	
United States	10	5,047.25	20.1
Japan	6	3,955.17	15.8
Germany	7	3,322.50	13.2
Total for Top 3 Countries	23	12,324.92	49.1
Total for Top 5 Countries[a]	34	17,931.62	71.4
Total for Top 50 Banks	50	25,108.73	100
2009			
Number of Country	*Combined Assets Top 50 Banks*	*% of (US$ bn)*	*Top 50*
United Kingdom	5	11,729	18.9
United States	6	9,278	15.0
France	5	8,614	13.9
Total for Top 3 Countries	16	29,262	47.7
Total for Top 5 Countries[b]	27	42,097	67.8
Total for Top 50 Banks	50	62,050	100.0

Notes:

a. In addition to top three countries listed, the top five in 2003 includes the UK with six of the top fifty banks with US$ bn 3,166.65 in combined assets and France with five of the top fifty banks with US$ bn 2,440.05 in combined assets.

b. In addition to the top three countries listed, the top five in 2009 includes Germany with seven of the top fifty banks with US$ bn 6,850 in combined assets and Japan with four of the top fifty banks with US$ bn 5,626 in combined assets.

Source: Compiled from Global Finance (2003, 2009).