

# Effect of globalisation on spatial patterns of economy



Globalisation and the spatial structure of the economy: Critically discuss how changes related with globalisation can affect cities and the spatial patterns of economic activities?

Globalisation has become one of the key concepts in the social sciences at the turn of the twentieth century. A term that has come to be used globally which relates to the processes of social relations acquiring relatively distance-less and borderless qualities that place can be argued as a homogenous landscape (Scholte, 1997). However as Julius (1997) finds there is confusion about globalisation continuing within the disagreement over whether it is “ a process or an end-state”. Globalisation can be seen as the world-wide interconnectedness between nation-states. In which social arrangements such as power, culture, politics and norms become intangible from their spatial context due to the acceleration, diffusion and expansion of transnational flows of people, goods, finances and information (Berkens, 2004). Globalisation can be seen as essentially a process driven by economic forces, having profound effects on cities and the economy (Sideri, 1997).

Globalisation can be argued as a more recent expansion of the previous emerging relationship between urbanisation, industrialisation and economic development which initially began in Western Europe in the late fourteenth century; associated with the development of European wide trade links (McCann, 2013). However the concept can date as far back to Colonialism and the colonial power of Europe. The first era beginning with the arrival of Christopher Columbus in America (1492) combined with the expansion of the Spanish and Portuguese empires (Friedman, 2007). This westward colonial expansion of Spain to America after 1492 proceeded the sixteenth century

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with the transatlantic trade links; the first economic global expansion for European countries, the development of overseas empires in non-adjacent regions (McCann, 2013). This concept enabled globalisation to be defined as an economic structure whilst being a political phenomenon, shaped by negotiations and interactions between institutions of transnational capital and nation states (Guttal, 2007).

Dating Globalisation back to the colonisation of Asia, Africa and America alongside the search for new markets and sources of wealth fanned by the industrial revolution; resulted in the production of international commodity markets and mercantilist trade (Guttal, 2007). By 1800 Britain was argued as most industrialised country in the world due the enhancement of the industrial revolution. London was seen as the second largest city in the world and some 57% larger than Western Europe's second largest city (McCann, 2013). Due to the establishment of colonies and industrial trade links since the Second World War much of the world has become more interlinked through innovations and advances within transportation, communication and information technology (Guttal, 2007).

During the 1980's the development of engineering techniques and technologies facilitated the reduction in skilled labour and movement towards machinery within batch production. Variety and availability being the main drivers of these advancements resulted in an alteration of the economy; a reduction of jobs and movement of manufacturing out of the city to suburb locations (Duffy, 1995). Furthermore labour intensive sectors located in innermost locations such as clothing and tobacco have been outsourced overseas to cheaper labour intensive factories in order to <https://assignbuster.com/effect-of-globalisation-on-spatial-patterns-of-economy/>

maximise profit. The new jobs created will need white collar workers and will require meeting the need of the consumer, so location needs to optimise their competitive advantage (Duffy, 1995).

By the latter of the twentieth century there was an unprecedented increase in economic capacities, power and reach of private corporations which many were operating transnational. New York was seen as the principal city whilst all cities had become the economic engines increasing in size and increasingly interlinked (McCann, 2013).

Globalisation has been as a result of modernisation and capitalist expansion, engaging the incorporation of all economic movement into a “ global” homogenous market place. Materialisation of this integration is due to the collapse of nation barriers to external trade and finance centres, deregulation of the economy, expert driven economic growth and the facilitation of free market capitalism (Guttal, 2007). The modern structure of regions has enabled regional organisations to combine highly contrasting elements of zones of abandonment, with areas of primary resources whilst comparing and contrasting the reurban/suburban areas to the outlook of the urban zones (Claval, 1998).

In the past decade the notion of globalisation yielded numerous pieces of literature and has led to widespread debates over the explanation. Various disciplines have deliberated the subject area merely concluding that the concept involves change whilst new arrangements are emerging that differs from those in previous times (Berkens, 2004). This notion of change has altered cities and economies spatially.

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Globalisation has led to the homogenisation of consumer tastes, the amalgamation and expansion of corporate power, increases in wealth and poverty, the “McDonaldisation” of food and culture and the growing of democratic ideas (Guttal, 2007). All of which have caused the outsourcing of production overseas. Trans National corporations (TNCs) today are seen as the main drivers of globalisation; they are the primary beneficiaries of international trade and the most powerful promoter of liberalisation, deregulation and privatisation of production. TNCs are global interconnected businesses which segment the manufacturing process, due to collapse of trade barriers and global regulations (Buckley and Ghauri, 2004). This outsourcing multiple partial operation approach of production combined with the development of cheap transportation and communication networks has allowed an increasing division of production globally. This spatial dispersion of economic activity (Sassen, 2001) has allowed for TNC's to outsource manufacturing to subcontracting independents many of which are located within South East Asia and Mexico. This outsourcing approach allows for companies to meet the demand of the consumer induced population whilst maintaining profits and cheap transportation and communication costs (Claval, 1998). This reorganisation of production overseas resulted in the expansion of international trade and the integration of financial markets.

The expansion and spatial dispersion of economic activity has brought about capital mobility. This reorganisation of the financial industry has been typified by the sharp growth production of innovation and multiplication of financial firms whilst shifting the industry away from American transnational banks to major hubs of finance. The integration of markets being a defining

characteristic of globalisation (Buckley and Ghauri, 2004) has enabled the integration of local markets into regional trading systems which obtain continental links as a result of the overseas journey of innovation. This spatial change of economic activity from the movement of jobs from highly developed areas to less developed low wage locations has enabled capital mobility. This is not only comprised spatially but through the technologies that provide capital mobility and by maintenance of the decentralised global production system (Sassen, 1988). This increased mobility of capital has altered the geographic organisation of production and the network of financial markets whilst reorganising the employment structure.

Financial markets goods, services or labour are all moving towards social integration. This change has meant no individual national capital market can have a sustainable independent existence. Regional economic integration is becoming increasingly efficient in integrating goods and services whereas labour markets are functionally separate at national level and integration being resisted by national governments (Buckley et al, 2001). Due to this the largest multi-national enterprises can exploit these differences within the markets to maximise profits (Buckley and Ghauri, 2004).

The increase in volume of financial industries (Sassen, 2001) has given major cities a key role in the management and control of such global network. The importance of centralisation has enabled cities like New York, London and Tokyo to become centres of finance and global servicing. All have contributed to the increase of centralised services for management and regulation of the economy accelerating transactions globally (Sassen, 2001).

This increased shift of economic activity to finance and highly specialised  
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zones has altered management within companies from an activity focussed on production to one that is financially focussed. The involvements of the complexity of transactions lead to the array of specialised services leading to the high densities and agglomeration economies.

This continuous building of high rise office complexes accelerates land price triggering a competition for land. This process of agglomeration represents a phase in the formation and expansion of an industrial complex controlled by command functions and finance; whilst referring to benefits that accumulate when firms locate in “ propinquity” to one another (Bingham & Mier, 1993). Alfred Marshall a leading economist observed that firms often continued to cluster successfully in the same locations because of knowledge “ spillovers”, local and non-traded inputs and a local skilled labour pool (McCann, 2013). Marshalls’ model looks at how individuals acquire skills by interacting with one another with denser areas increasing in rate; with the strength of the economy rising there is a higher mean and variance of skills (Glaeser, 1999). The integration of local and national economies into an agglomeration whilst unchanged by protectionism allow for economic growth.

Wealth will be created and shared with more people to enjoy the benefits of modernisation, technological advancements and society. However critics may argue that globalisation has resulted in the clustering of the affluent and educated class whilst fracturing working classes and marginalising the poor who may not have the skills and economic asset to gain from an open market approach (Guttal, 2007).

The agglomeration approach gives sense to global cities; bases of spatial organisation and communication of production and markets (Duffy, 1995). On a smaller scale “second cities” such as Birmingham have consolidated position as the source of services for businesses. The process allows similar or like economies and industries to cluster together in order to raise price, competition and consumers to raise their economic profile. Allowing benefits from reduced transport and negotiating costs, pool of labour and the sharing of speciality machinery (Bingham & Mier, 1993). This competition for inner city location can be monitored by the Bid Rent model by Alonso, 1964 (McCann, 2013). However once a centre of agglomeration has occurred it becomes difficult for institutions to locate outside of the area due to the profound benefits and links that have evolved, however FDI may offer a solution.

Within the recent global economy the emphasis of new investment and transactions is centred by Foreign Direct Investment (FDI); the allowance to inquire a firm in a foreign country (Sassen, 2000). In recent years the internationalisation of production to developing economies has been the main focus. Throughout the 1990’s developing countries had a lower investment flow than developed countries; it was still observed as high in historic terms, hence reflecting the growing internationalisation of economic activity (Sassen, 2000). Expansion of economic growth driven by the outsourcing and investment of primarily manufacturing has enabled areas such as China to grow and become a global economic driver.

The urban economic agglomeration which occurs throughout China has enabled itself to be an economic superpower (Chow, 2002). The rise of China  
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has enabled a manufacturing, production and service base for a labour intensive industry. The optimum location can thrive off a growing economy with the ability to absorb raw materials whilst having in exhaustible cheap labour for production and a growing internal market. Since 2003, China has been the main location of Asian exports and served as the primary incentive of growth within the world's economy over the past decade (Guttal, 2007).

The more recent approach of The Asian Tiger economies has led to the independence of Hong Kong, Taiwan, Singapore and South Korea. By the twenty-first century all four nations had seen advancements towards high income economies, specialising in aspects of competition. This enhancement altered their global economic structure; changing from traditional, agriculturally based societies to rapidly growing NIC's with economic centres (Davies and Gonzalez, 2003). An expansion of these economies led to the snowball effect of "second-tier" East Asian developing economies; the emergence of Indonesia, Malaysia and Thailand. With the resurgence of Asia being the most significant global shift; becoming economic focuses within the spatial economy (Dicken, 2007).

The agglomeration of local goods and services enables the "death of distance" (Cairncross, 1997), the reduction of friction of services between goods and individuals. This Global process does not solely just affect economic activities it affects the social and population structure of a city. Due to the diversification of cultures and norms across globalisation, population groups can agglomerate together. The creative class brings innovative new ideas to create change (Clifton, 2008). This innovation of clustering has enabled creative connectivity and the ability of creative

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individuals to push forwards to the frontiers of research within MNE's. This area of potential allows the integration of individuals (Antonelli, 2000).

It has been noted by academics that population loss within a city can occur due to globalisation; largest decrease in inner city areas (Duffy, 1995).

Housing and workplaces were cleared in replace of lower income density housing and public amenities. However the opposite occurred in other locations known as counter-urbanisation. Within the core of the city homes and amenities were produced to attract the middle class back into the city, with the attempt of inner city redevelopment. Thus as a result of globalisation a snowball effect happened with the migration of the population which in turn led to redevelopment of the inner city. As Duffy (1995) states a city shall strive higher if there is a mix of population and norms as opposed to a uniform homogenous landscape. Whilst Glaeser identifies that high skilled and high income workers migrate back to city centres as a result of re-urbanisation as part of the consumer city hypothesis (McCann, 2013).

Nonetheless there are challenges in which affect regions, whilst large markets offer investors great liquidity and competitive prices of stocks and greater security. Agglomerations of economic power in major metropolitan regions cause the peripheral areas of regions to be plundered for their raw materials and inexpensive unskilled labour intensive rolls. This economic clustering causes greater income inequalities whilst destroying the linkages of local communities and the homogenisation culture of western values (Buckley and Ghauri, 2004). However Rugman (2000) found that it is hard to address these issues because they hit directly at the logistics of a capitalist approach. For example due to the dynamics of the market system old jobs  
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are destroyed whilst new jobs are being created and as the process escalates jobs become ever more insecure (Burchell et al, 2005).

In conclusion the outsourcing and global expansion approach offers profound effects on cities and economic activities. Cities which were once industrialising hubs have lost the capital from old industrial centres and have transformed into the inflow of capital into NIC's and TNC's (Sassen, 2001). Globalisation has allowed for the development of physical and technological infrastructure enabling global linkages and the share of economic activity through the internet being the backbone of society (Castell, 2001). The interconnectedness of cultures and norms through the realms of trade offers endless benefits and negatives throughout spatial economies and cities. Development of economies can be modelled using regional econometric models which look at economic linkages that exist within and between regions worldwide. The model can predict that an increase in regional wage can have a long term effect on the population balance through in-migration; occurring whenever the regional wage rises relative to the national wage (Armstrong & Taylor, 2000). Models allow prediction of the affects globalisation has spatially allowing analysis and discussion.

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