

The Economic Geography of Globalization: Technology, Institutions and Multinationals

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Globalization: Perceptions

- Increased international trade
- Rapidly improving communications
- Global branding
- Multinational companies
- The 'rise' of Asia
- A 'shrinking' world

Globalization: Perceptions

- O'Brien (1992) – the 'end of geography'
- Cairncross (1997) – the 'death of distance'
- Thomas Friedman (2005) – the 'World is Flat'
- The world is becoming a global 'village'

Globalization: In a Historical Context

- 1929-1950 decline in global trade/GDP ratio
- 1914-1980 decline in global foreign assets/GDP ratio
- Post-WWII Bretton-Woods system
- 1960s -1970s global financial restructuring
- 1980s – emergence of ICTs and JIT/TQM
- 1990s – rise of the internet, e-mail, mobile phones, GPS systems

Globalization: Features

- ***Institutional Changes*** – EU, NAFTA, CER, ASEAN, MERCOSUR, APEC, BITs, DTTs
- ***Technological Changes*** – transportation improvements (RO-RO), and ICTs
- ***Organizational Changes*** – out-sourcing, off-shoring, global expansion of multinationals

Globalization: Outcomes

- ***Globalization*** and ***Localization*** are both increasing in tandem
- Slow ***international convergence*** (except Africa)
- Increasing intra-national ***inter-regional divergence***
- Changing architecture of global trade (SEA network analysis)
- Super-regions (EU-NAFTA-SEA) increased share of world trade

Globalization: Outcomes

- Advanced economies account for 85% of global FDI outflows and two-thirds of global FDI inflows
- Service FDI accounts for two-thirds of global FDI
- Infrastructure investment is both the largest and fastest growing element of service sector FDI

Globalization: Outcomes

- The transition economies bring 260 million new workers into the global economy
- China brings 760 million workers into the global economy
- India brings 440 million workers into the global economy

Globalization: Outcomes

- Changing architecture of global trade
- Leamer (2007) – the world is not shrinking but economic activity is dispersing
- Rise of the BRIICS economies
- Key role of China
- Growth in Super-Regions: EU, NAFTA, East-Asia

Globalization: MNEs

- Multinational firms are better able to coordinate global activities
- Tighter integration of global supply chains
- Longer distance trading relationships
- Increased inter-connectedness of economies
- Knowledge internalization

Globalization: MNEs

- Over half of China's exports are internal trade within foreign-owned multinational firms
- Two-thirds of India's ICTs exports are controlled by foreign-owned multinationals
- Income of East Asia is less than GDP
- Globalization depends on multinationals

Globalization: MNEs

- Multinationals account for 10% of global GDP
- MNEs account for 12.5% of gross FCF
- Multinational affiliate outputs are 2.25 times the size of global exports
- MNE affiliate employment is 73 million (3% global workforce)
- 78,000 multinational companies with 780,000 overseas affiliates

Globalization: MNEs

- Growth of 1000-2000 MNEs per annum.
- Growth of 10,000-20,000 MNE affiliates per annum.
- Growth of 20 million foreign employees since 2002
- Growth in MNE sales and employment is more than 10% faster than domestic firms
- Growth in foreign/domestic sales and employment of MNEs is even faster

Globalization: MNEs

- Multinationals account for over half of global R&D and two-thirds of global private sector R&D
- 700 largest R&D MNEs account for 46% of global R&D and 69% of private sector R&D

Globalization: MNEs

- 500 multinationals account for 90% of (\$1.4bn pa) foreign direct investment FDI and 50% of global trade
- 100 MNEs account for 10% foreign assets of MNEs, 17% foreign sales, 13% of total foreign employment
- K/L ratios of MNE affiliates are increasing

Location of MNEs and Economic Geography

- ***National and regional growth and trade depend on the location decisions of multinational firms***
- Location of MNEs' investment (FDI) and economic geography
- Dunning OLI paradigm (O)rganization (L)ocation and (I)nternalization

The Role and Value of Knowledge: Agglomeration Economies

- Importance of agglomeration appears to have increased globally since early 1990s
- More than half the world now live in cities
- In advanced economies cities are increasingly associated with knowledge activities
- Premium for Face-To-Face Contact

The Role and Value of Knowledge: Agglomeration Economies

- Cities have higher productivity
- Cities generate more knowledge outcomes (patents, innovations, copyrights, licenses)
- Cities have higher human capital – both stocks and inflows
- Cities and ‘creativity’
- Cities and Entrepreneurship

The Role and Value of Knowledge: Agglomeration Economies

Productivity gains due to clustering,
proximity and scale

- Local Tacit Knowledge Spillovers
- Non-Traded Local Specialist Inputs
- Local Skilled Labour Pool

The Role and Value of Knowledge: Agglomeration Economies

- Localization economies (specialization)
- Urbanization economies (diversity)
- Internalization economies (firm-specific)

Regions and Globalization

Spatial transactions costs for routine, standardized and non-knowledge intensive activities have *fallen*

Spatial transactions costs for non-routine, non-standardized and knowledge-intensive activities have *risen*

Regions and Globalization

- The links between globalization, knowledge and regions can be considered on two levels
- Changing role of ***sub-national*** regions
- Changing role of ***super***-regions
- Multinationals locate control functions in global knowledge centres - cities

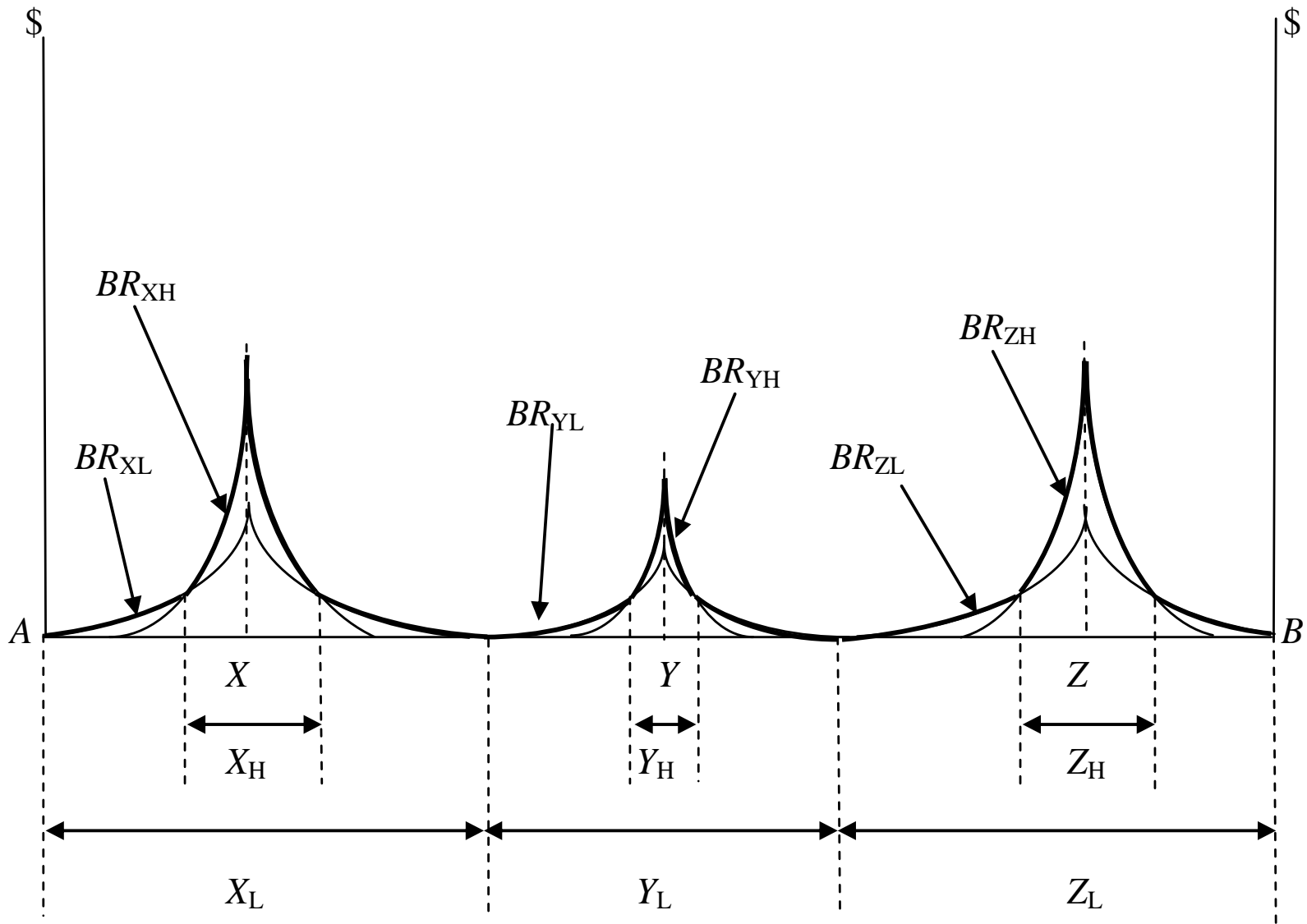


Fig. 1 A Three City One-Dimensional Economic Geography

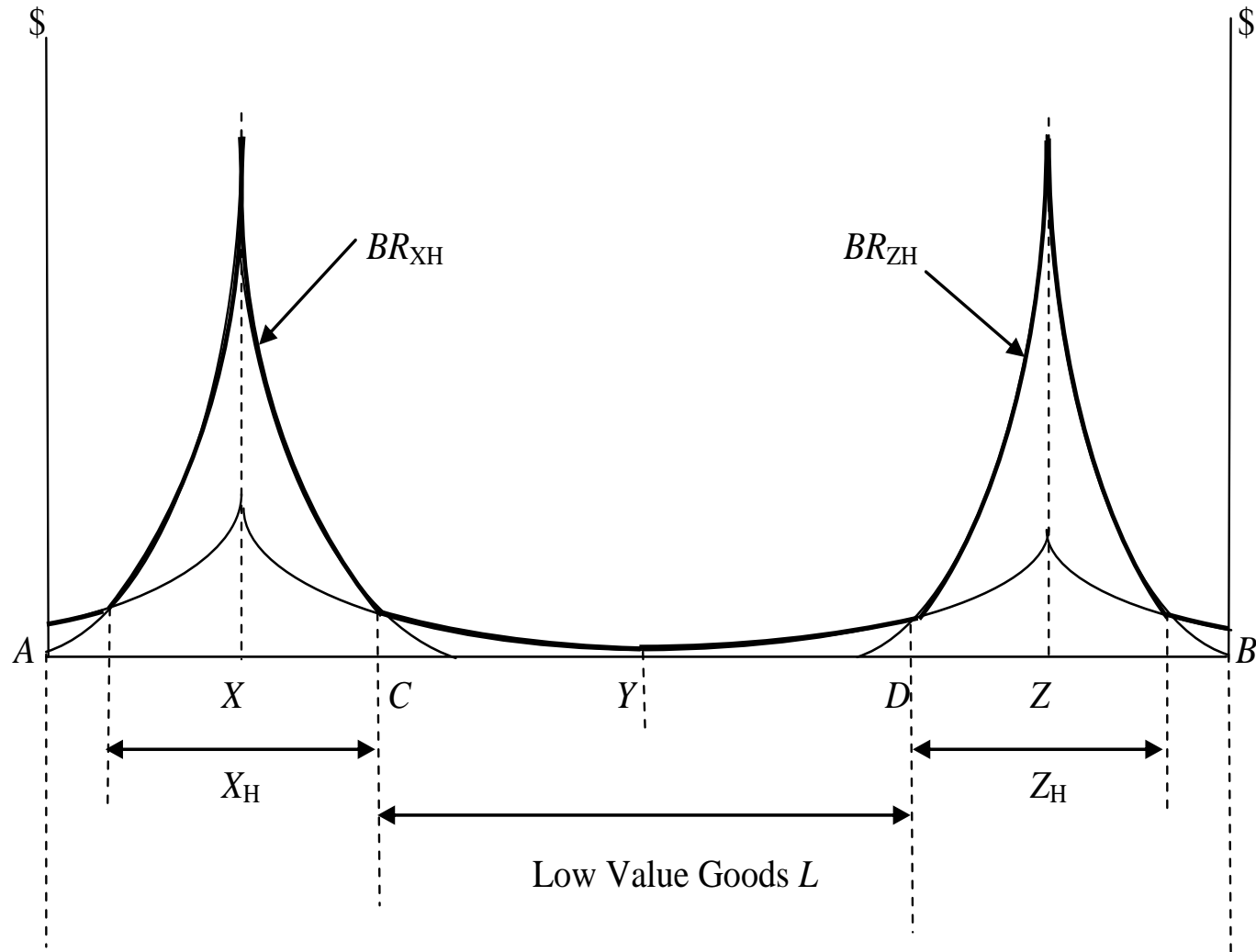


Fig. 2 Globalization, Localization and Economic Geography

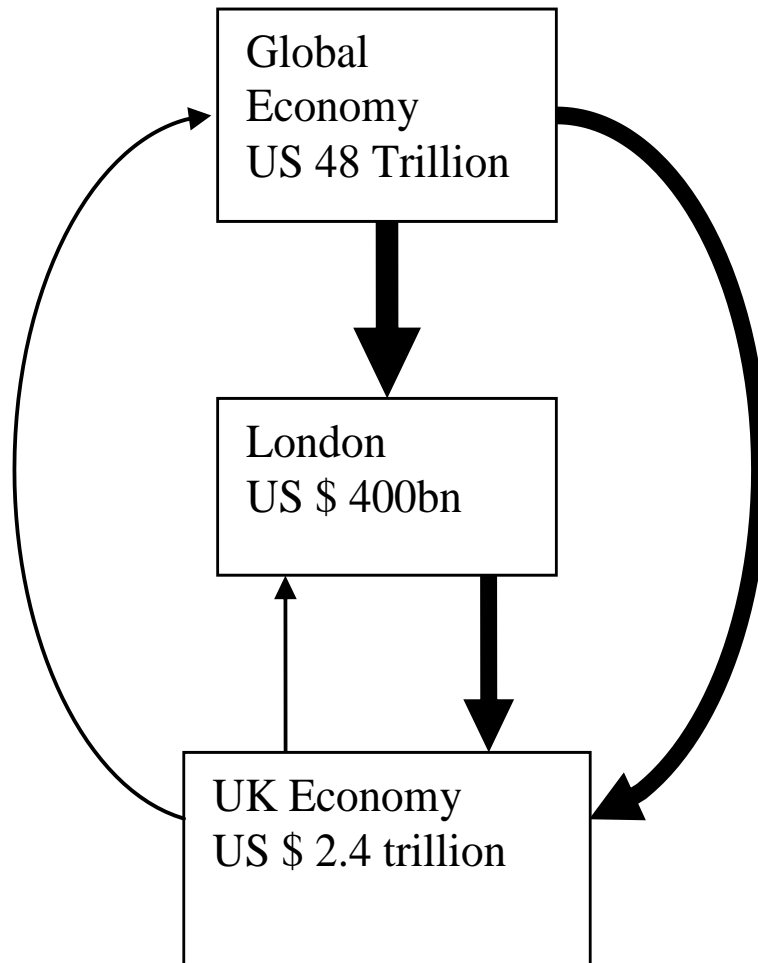


Fig 3 The UK Interregional System

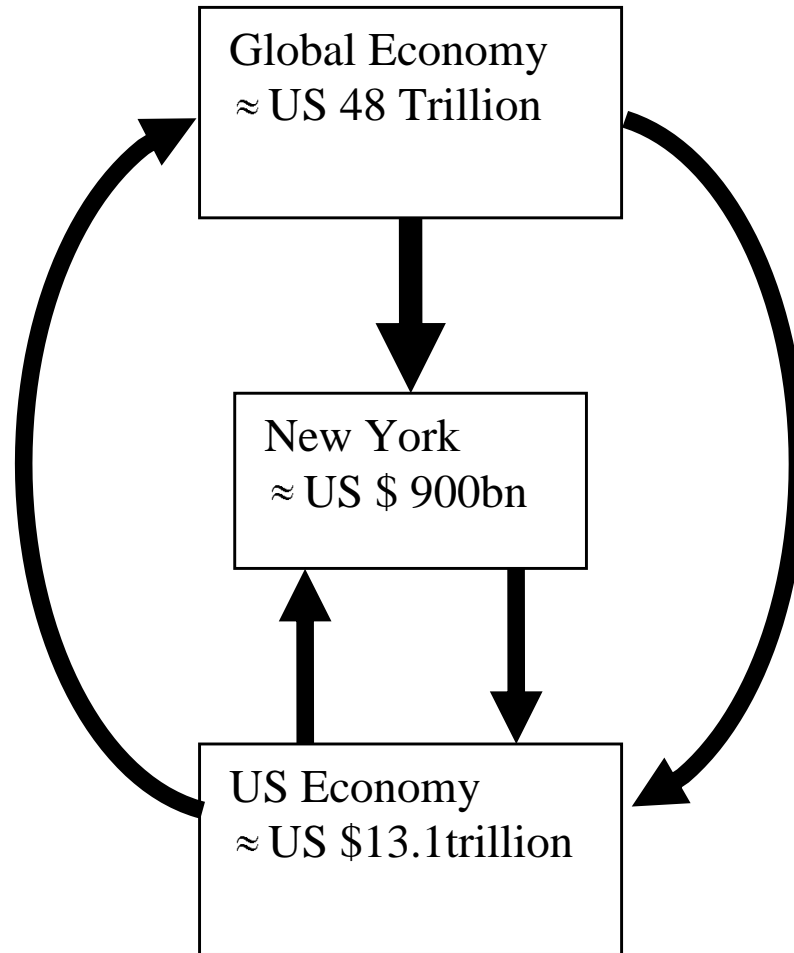


Fig 4. Directions of Economic Linkages: New York and USA

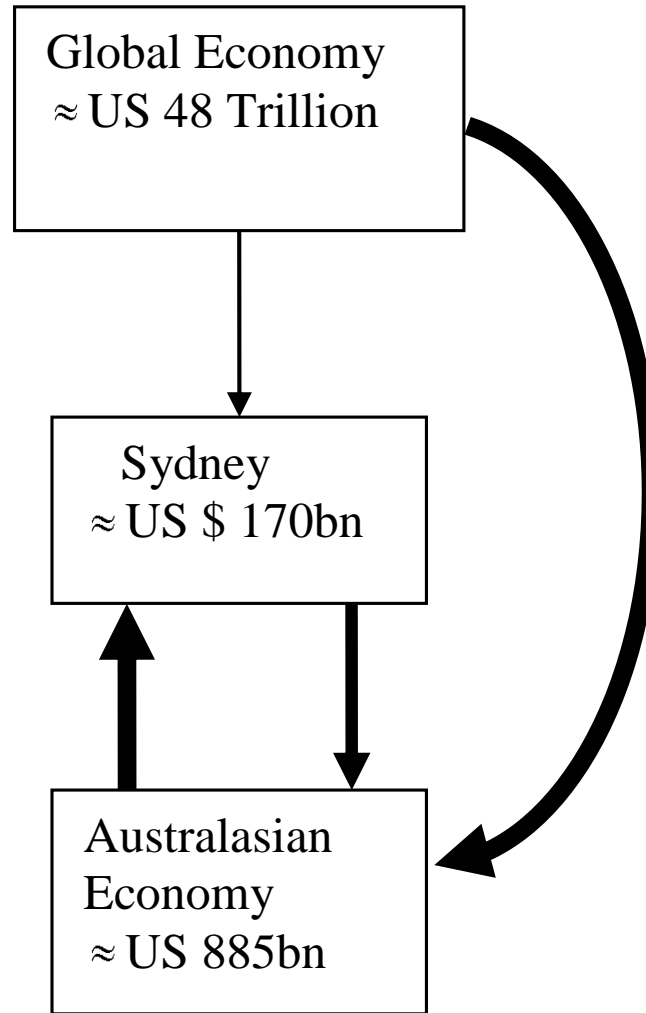


Fig 5. Directions of Economic Linkages: Sydney and Australasia

Regions and Globalization

- Core city growth is associated with a contraction of the periphery
- Increased interregional and international migration
- 25-40 year old 'knowledge' workers are most migratory
- Increasing spatial 'reach' of core cities

Regions and Globalization

- The rise of ***global cities*** in super-regions
- Global cities as ***knowledge hubs*** in global networks of transportation and communication
- Global cities dominate human capital
- Global ***city-regions*** at both the sub-national and trans-national levels

Super-Regions and Globalization

- ***Global regionalization***
- Geographic proximity is becoming ever more important for multinational investment
- The geographical patterns of DTTs and BITs is becoming more spatially concentrated

Super-Regions and Globalization

- MNE investment patterns – ‘regional’ multinationals
- Same-regional sales of top 500 MNEs is over 70% (EU-NAFTA-S+EA)
- Taiwan, HK, Korea and Japan FDI in China

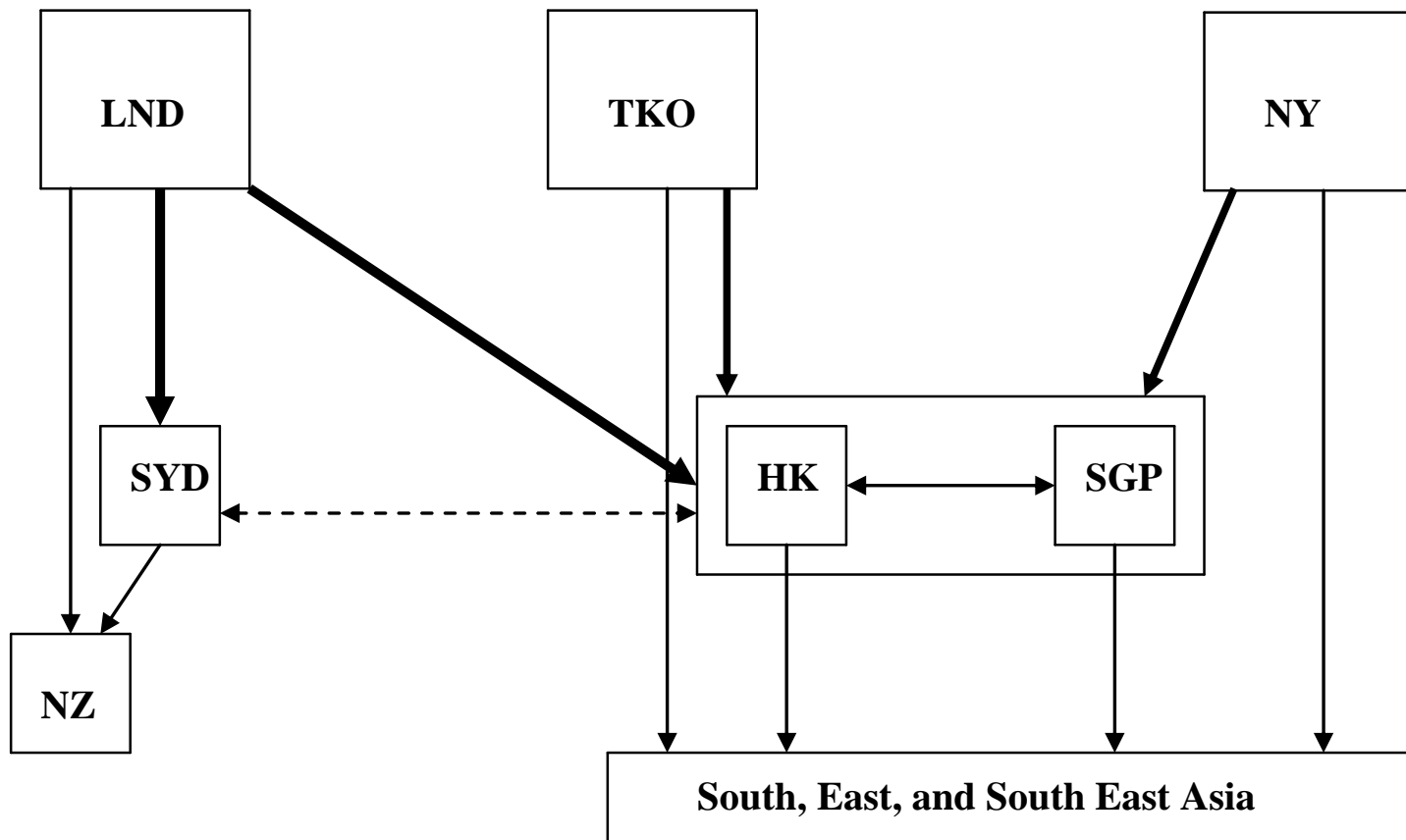


Fig 4 Asia-Pacific Financial Flows and Control *circa* 1985

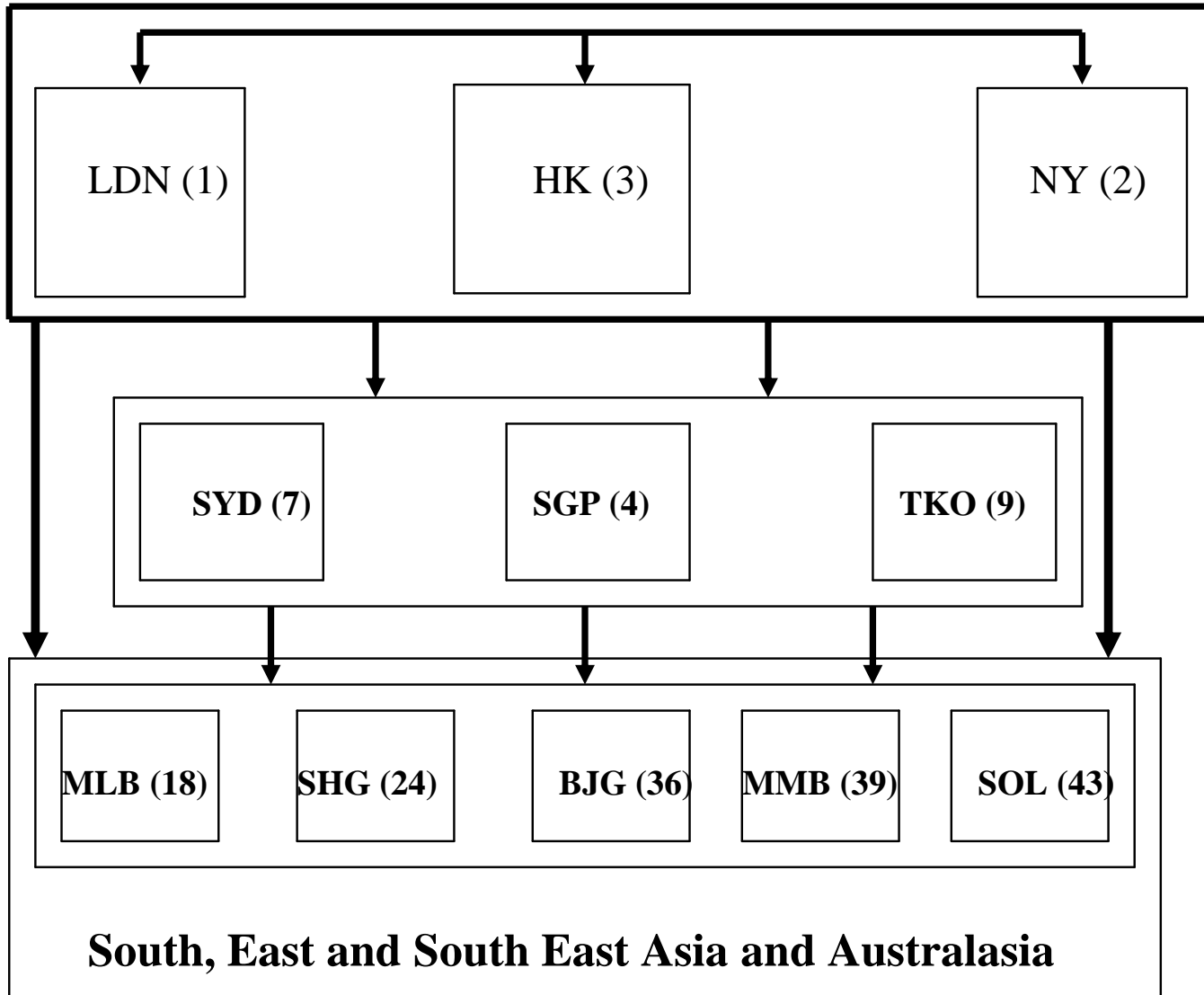


Fig 5 Asian Financial Flows and Control 2008

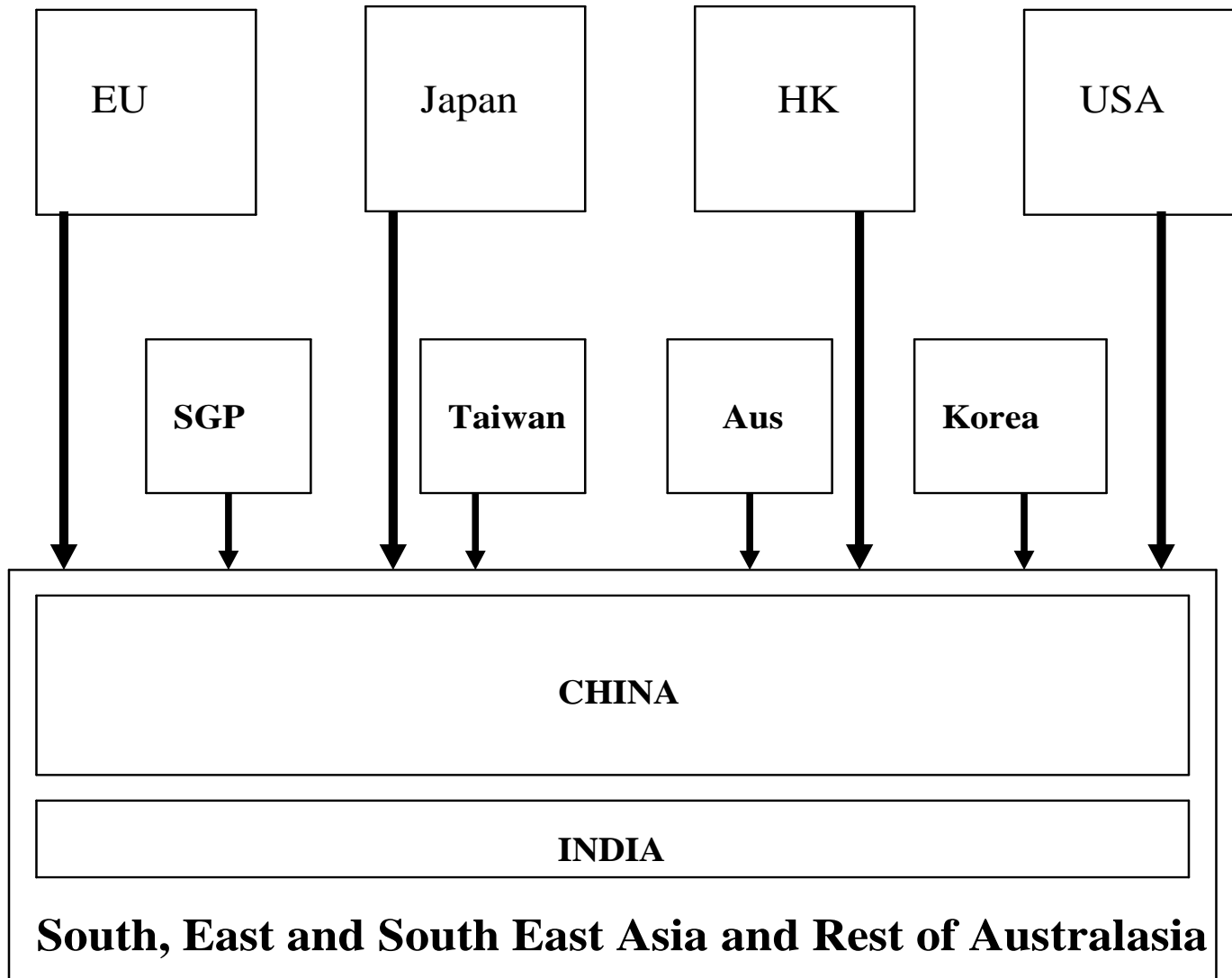


Fig 6 Asian Technology Flows and Control 2008

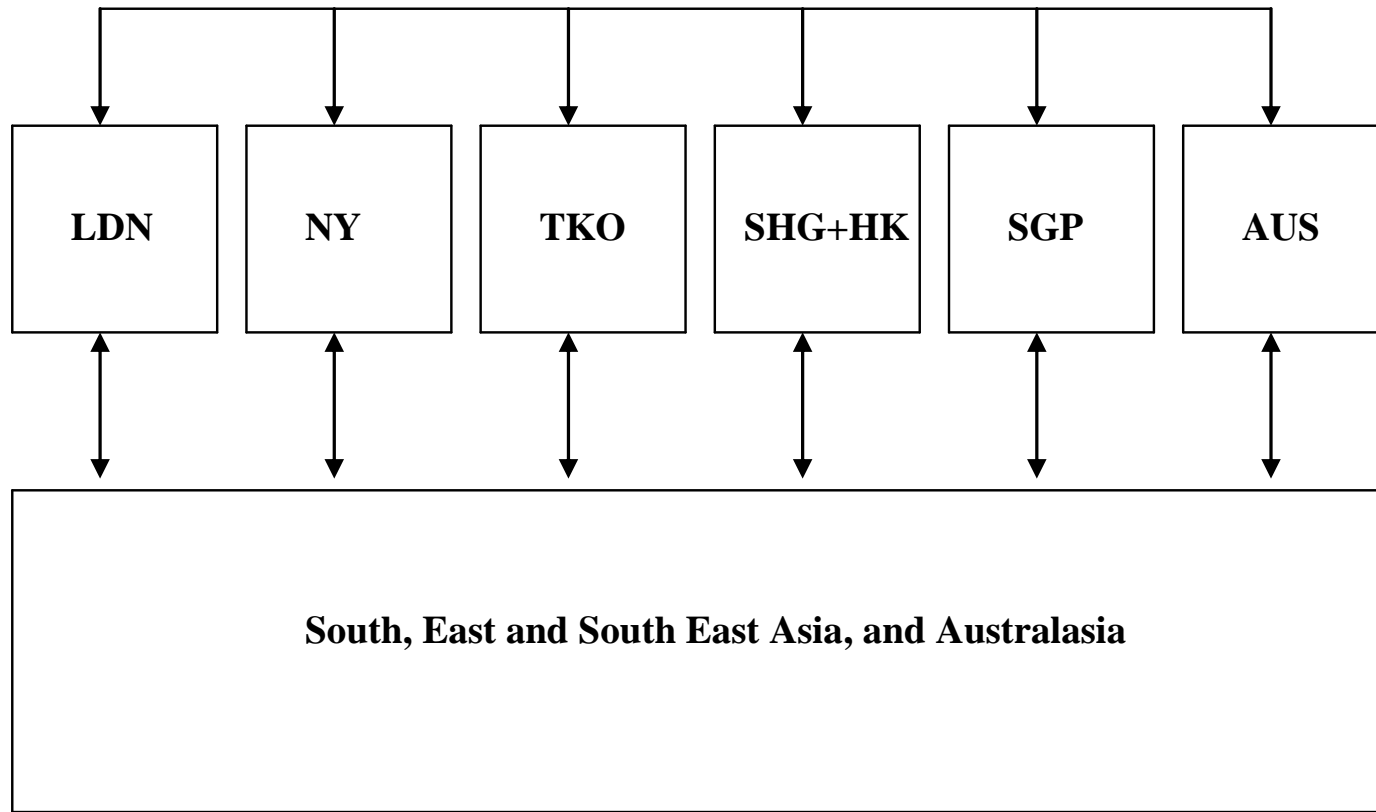


Fig 7 Future Financial and Technology Flows?

Policy Issues

- ***Global Connectivity*** between regions is critical
- Transfer of goods, people and knowledge
- Transportation and communications infrastructure is essential
- Flexible land use policies to facilitate urban expansion
- Air transportation facilities are the most important infrastructure assets

Theoretical Issues

- Theory of location of MNEs – economics; international business and management; regional science
- Problem of unintended knowledge outflows
- Organizational (O), knowledge (I), and locational (L) issues
- markets versus hierarchies) and clustering