Economic Trends in the Modern World

Ever since the Industrial Revolution, the growing demand for resources, the expansion of manufacturing and trade, along with technological innovation have worked to produce an increasingly interconnected global economy. Almost all places are in some way part of the web of production, exchange, and consumption that make up that economy—and their position in that web has significant social consequences Those in the developed core tend to be in the drivers seat, whereas those in the periphery have far less control. Tracing the historical geography of industrialization can tell us much about why some areas are in a more advantageous position than others, but that is not the entire story.

Rise of the Service Sector

The manufacturing boom can be traced to the development of the mass-production assembly line pioneered by Henry Ford, which allowed for the production of consumer goods at a single site at a massive scale. So significant was his idea that we refer to Fordist manufacturing to describe the highly organized and specialized system for organizing industrial production and labor.

The early 1970s brought with it an energy crisis with a sharp rise in oil prices. It became increasingly difficult for the core industrial regions to sustain their competitive advantage without significant readjustment – toward mechanization (utilizing automated machinery) and the expansion of service and information industries. These changes with the growth of multinational corporations (e.g., General Motors, Exxon, …) have brought about a postindustrial or “post-Fordist” economic order in many of the core regions.

The declining cost of transportation and communication along with changes in the production process, have led to an enormous expansion of the service sector (e.g., transportation banking, retailing, administration and decision making). Service industries (tertiary industries) do not generate an actual, tangible product; instead they include a range of tertiary, quaternary, and quinary services offered primarily in the core. Trade itself is a tertiary economic activity of considerable importance to the global economy. Regardless of these economic advancements, deindustrialization – the movement of mass-production manufacturing from the core to more peripheral locations – has done little to change the basic disparities between the core and periphery. In the first decade of the twenty-first century, North America, Eastern Asia, Russia and Ukraine, and Western Europe still account for well over 75 percent of the world’s manufactured goods.

The New International Division of Labor

Despite the continued industrialized dominance of the developed core, there are pockets of significant hardship. “Rustbelts” emerged in places like the British Midlands, the American Northeast, and Silesia as firms moved into other areas. These changes in economic geography reflect the decreasing importance of coal in the energy-supply picture, the need for more modernized factories, and the emergence of new markets.

The Age of Imperialism beginning in the 19th century established an industrialized core and a resource-exporting periphery. The late 20th century brought with it a set of global economic relationships called the new international division of labor characterized by a growing dominance of service industries in the global economic core and an associated shift of manufacturing to parts of the developing world (largely due to lower labor costs). There are also the multinational corporations that
have helped engineer the new international division of labor – taking advantage of low transportation costs, favorable governmental regulations, and expanding information technology (e.g., fax machines, email, internet,...).

The production of televisions provides an excellent example of the new international division of labor. Commercial production of television sets began after World War II by a variety of relatively small firms in Europe and Asia, with the United States as the most dominant. During the 1970s and 1980s a dramatic shift occurred, with a rise in large Asian producers – mainly Japan – seizing a much larger percentage of the market. By 1990 ten large firms produced 80 percent of the world’s color television sets; eight were Japanese, two were European, and only one was American – Zenith.

The television production industry has three key elements: 1) research and design, 2) manufacture of components, and 3) assembly. Research and design has always been located where the major television manufacturers were based. Starting in the 1970s, firms moved the manufacture of components and assembly “offshore.” U.S. firms moved theirs south of the border into Mexico; the Japanese moved them to Taiwan, Singapore, Malaysia, and South Korea. The assembly stage was the most labor intensive, so it went not just to Mexico and Southeast Asia, but to places such as China, India, and Brazil as well. Then a move toward greater mechanization in the production and assembly process in the 1980s led the then-dominant Japanese producers, as well as some of their Asian counterparts, to locate a growing number of their offshore production sites back in Europe and the United States (where a combination of suitable infrastructure, skilled labor, and accessible markets). These new trade links both reflect and define the new international division of labor.

One key component of international finance is foreign direct investment. A few core countries – the United States, Japan, Italy, Germany, France, and the United Kingdom – are responsible for an overwhelming percentage of that investment. Most of this money goes to other core countries and the newly industrializing periphery. Some multinational corporations based in newly industrializing countries such as Taiwan, South Korea, and Singapore are the major exception.

Another aspect of global finance is the patterns of loans and payments handled by banks. The need for capital in the periphery led to significant borrowing, especially by governments seeking to promote development (leaders obviously want to show they are improving conditions within their country – even at the expense of long-term consequences). For many countries the cost of servicing their debts (the cost of repayment plus the interest) has exceeded revenues; just look at the map below. The political crisis in Argentina at the end of 2001 has shown that the debt repayments can lead to social meltdown. The only alternative is to default on the loan (don’t pay it back), however, defaulting countries find themselves in a severely disadvantaged position when it comes to attracting any future investment.
Specialized Patterns of Economic Concentration and Interaction

To understand the economic shifts that have occurred over the past few decades we must look beyond individual places to the global scale, for both the core and periphery have been significantly changed. The new international division of labor demonstrates that in the traditional core, the shift away from heavy industry and toward the service sector has been accompanied by the rise of labor-intensive manufacturing in new locations. Many service industries, however, are not tied to raw materials and do not need large amounts of energy. Market accessibility is typically more relevant, which is why the service sector dominates the core.

The locational influences of many quaternary services, such as banking and various types of administrative services, tend to be locate near the businesses they are serving. Other types, however, can operate almost anywhere as long as they have access to digital processing equipment and telecommunications. Those working in the quinary sector tend to be concentrated around nodes of quinary activity – governmental seats, universities, corporate headquarters, or research parks (facilities). Many of these tend to be located in large metropolitan areas, but some are found in places that were selected based on cultural values or political compromises. These compromises led to the establishment of major seats of government in small towns – Ottawa, Canada and Canberra, Australia are two examples of this phenomenon.

World Cities

Te array of economic links around the globe can no longer be described in national terms – that is to say, corporate structures and flows transcend national boundaries. Decisions made in one part of the world may affect what happens thousand of miles away. In the mid-1980s, John Friedmann used the term world cities to describe the control centers of the world economy. These cities are not necessarily the largest in terms of population, nor are they always the greatest centers of manufacturing. Instead, they are the places where the world’s most important financial and corporate institutions are located and where decisions are made that drive the world economy. Thus a global economic geography dominated by nation-states is giving way to one in which world cities and multinational corporations play an increasingly significant role.

As one would expect, most of the major world cities are located in the developed core. New York, London, and Tokyo are not only world cities, and international hubs of economic activity, but are also the focal points of the world’s three major core regions: North America, Western Europe, and Pacific Asia. The Southern Hemisphere is linked to the system primarily through São Paulo, Brazil, and Sydney, Australia. Below is a dot map that displays the network of many of the globe’s world cities – the larger the dot, the greater the influence of that city in the global economic system. People living far from the network of world cities can find it difficult to influence decisions made in that network.
Even before the development of world cities, the world exhibited signs that individual states were no longer sufficient enough to handle modern economic systems of the world. The **General Agreement on Tariffs and Trade (GATT)** was organized in 1948 and was in effect until 1994. This initiative assisted in creating a multilateral trading system and reducing tariffs. Participating states worked with the World Bank & the International Monetary Fund (IMF). The only international body dealing with rules of trade today is the **World Trade Organization (WTO)**. The WTO has three main purposes – 1) to help trade flow freely, 2) a forum for trade negotiations, and 3) to settle economic disputes between countries. Many developing countries accuse the WTO of putting laws into practice that help maintain the dominance of the core at the expense of the people living in the periphery.

Another supranationalist organization established for economic purposes is the **Organisation for Economic Co-operation and Development (OECD)**, born after World War II to coordinate the Marshall Plan. Today, the OECD has 30 member countries (which produce more than two-thirds of the world’s goods & services), with more than 70 developing and transition economies working with them. NAFTA was organized to increase trade, yet it is not an organization and provides no free flow of labor between states. The EU, by contrast, is an organization, and does provide for the free flow of labor between states. One must always keep in mind that these constructs are regional and tend to serve rather specific goals of the member states.

**Specialized Economic Zones**

Beyond the phenomenon of world cities, global economic change has produced **specialized economic zones** that did not exist before the late twentieth century. Specific economic activities have long been concentrated in particular places; for decades Detroit was synonymous with automobiles, and the Ruhr Valley with iron and steel. With the increasingly global economy, many newly industrializing states are establishing **manufacturing export zones**.

In the Western Hemisphere, only Mexico and Brazil have developed substantial manufacturing industries outside the U.S. and Canada. Mexico, in particular, has set up special manufacturing export zones where favorable tax, regulatory, and trade arrangements are offered to foreign firms. An extended **maquiladora** zone has developed in northern Mexico just south of the border with the United States. These districts have allowed manufactured products to be sent to the U.S. free of import duties (taxes). Maquiladoras are typically foreign-owned factories that transform imported, duty-free components or raw materials into finished industrial products. Today, at least 80 percent of the goods produced are re-exported to the United States. In fact, Mexico became the United States’ number one trading partner in the 1990s.

Although the maquiladora process began in the 1960s, it didn’t take off until the 1980s; today there are over 2,000 assembly plants employing over...
600,000 workers, accounting for more than 20 percent of Mexico’s entire labor force. Most maquiladoras are located in northern Mexico due to low labor costs, ease of transportation to the U.S., and proximity to major American cities (and markets) - not to mention the Mexican gov’t originally required them to be within 35 miles of the border.

Other factors explain why Mexico has emerged as an important location in the global system of industrial organization: weak environmental regulations, Mexico’s relatively stable government & their expanding middle class (also urbanization along with skilled labor) have all led to the increase in manufacturing in Mexico. The U.S. shift to a more tertiary economy (outsourcing of manufacturing), the rise of transnational corporations, and the exploitation of less developed countries (the core-periphery model) also account for Mexico’s growth as an important industrial location.

The North American Free Trade Agreement (NAFTA) signed into action in 1994, began a process establishing a free-trade area between the U.S., Canada & Mexico. This agreement has further encouraged the expansion of maquiladoras. But Mexico is not the only such region with special manufacturing export zones – China has established these districts in cities like Shenzhen (across from Hong Kong) and Shanghai (their largest city). The next time you purchase an item, check and see where it was manufactured or assembled – the likelihood it will be from China or Mexico is only increasing.

A related but very different type of development can be seen in the high-technology corridors that have risen in the core. The catalyst for these technopoles is technology – computers, semiconductors, telecommunications, sophisticated medical equipment and the like. California’s “Silicon Valley” developed around the University of California, Berkeley, and Stanford University. Innovative technology companies were attracted to the region due to the availability of a highly educated workforce. A similar technopole developed outside Boston – close to Harvard University and the Massachusetts Institute of Technology.

Technopoles can be found in a number of countries in North America, Western Europe, Eastern Asia, and Australia. These high-technology industries are thought to be pollution free and offer positive benefits for the communities in which they are located (better jobs, positive image, …). Although there are many positives, there are some drawbacks as well. Computer chips and semiconductors, for example, require toxic chemicals and large quantities of water for production. Land must often be cleared, and buildings must be constructed – placing greater environmental stress on the environment in these regions.

Tourism: A Service Industry Giant

Many developing countries look to industrialization to improve their economy, others focus on agriculture, yet another way toward economic growth is through the largest industry in the world today - tourism. This industry deserves special attention because of its distinctive geographical character. Tourism and travel equal 11 percent of all global jobs, and 11 percent of global GNP (~$4 trillion/yr.)! The tourism boom began during the latter half of the twentieth century in the core as incomes and leisure time increased.

The initial investment by the “host” country is huge (i.e. building hotels diverts money that could be used for housing, education, …) and many hotels are owned by multinational corporations (MNCs), not the “host” country itself. At the end of the day, tourism affects the local economy little (jobs, added business). In addition, tourism has diminished the distinctiveness of the cultural landscape. In many instances it has made the cultural landscape appear more homogeneous – hotels, fast food chains, resorts, theme parks often reflect little of the indigenous culture in which they are immersed. Environmental degradation (litter, pollution, negative effects on wildlife) is also an increasing threat as tourism increases worldwide.
Nonetheless, tourism has, in many cases, enhanced the distinctiveness of the cultural landscape. Multinational corporations often have a vested interest in place preservation to maintain the uniqueness and marketing value of the vacation spot they are in. They often go to great lengths to preserve historic buildings, sustain the indigenous lifestyles of the locals, and promote exotic scenery and wildlife (for *ecotourism*). The conservation of natural resources (mostly through commercial (tourist) motives), although done for self-serving reasons, does help maintain the local distinctiveness in some cases.

No matter how you look at it, tourism is on the rise – for better or worse. One of the fastest-growing segments of the tourist industry is cruising. The Port of Miami, and Port Everglades account for perhaps the most lucrative cruising revenues in the world. One ship carrying 2000 passengers on week-long cruises can accommodate 100,000 passengers per year and generate $100 million in gross revenues while keeping 1,200 officers and crew employed. But cruising is just one area in which we see the growing affects of tourism. In many of the National Parks in the United States, one needs and advance reservation to find an available campsite. To catch a glimpse of the Leonardo da Vinci’s Mona Lisa now requires jostling for position with thousands of others on a typical day at the Louvre in Paris. The tsunamis that hit Indonesia and around the Indian Ocean in 2005 would not have been nearly as devastating only a few years prior – due to the massive expansion of resorts and coastal towns. For better or worse – tourism is here to stay.

**Time-Space Compression and Its Impact**

A key theme of the last few decades is captured by the phrase *time-space compression* – referring to the social and psychological effects of living in a technologically advanced world. This concept is an offshoot of the concept of *time-space convergence* – referring to the greatly accelerated movement of goods, ideas, and information during the twentieth century; made possible by technological innovations in transportation & communication. Simply put, time-space convergence refers to the actual increases in the speed of movement, whereas time-space compression refers to the psychological effects of this change.

The transition away from a Fordist industrialization system to a faster, more flexible system has sped up production, opened new markets, and brought places closer together in time and space than would have been imaginable at the beginning of the twentieth century. The rise of the *World Wide Web* plays into the time-space compression. It is too early to know what the full impact of the Web might be, but its role in reducing the importance of distance is self evident. It also clearly plays a role in the decentralization of economic activity.

These are only a few reasons why geography is attracting renewed attention and why geographical understanding will be increasingly critical in the years ahead. It is therefore important not just to appreciate the forces that are remaking the world’s economic geography, but to be aware of its impact on how people practice the cultures that frame their lives. Understanding and appreciating diverse cultures will become increasingly important in the twenty-first century. It is truly an interesting paradox that the more complicated and intertwined the world becomes – the smaller and more connected it seems to be.