

GLOBAL SHIFT

MAPPING THE CHANGING CONTOURS OF THE WORLD ECONOMY

PETER DICKEN | 7TH EDITION



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PART ONE

THE CHANGING CONTOURS OF THE GLOBAL ECONOMY





Two

THE CENTRE OF GRAVITY SHIFTS: TRANSFORMING THE GEOGRAPHIES OF THE GLOBAL ECONOMY



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THE IMPORTANCE OF TAKING A LONG VIEW: THE IMPRINT OF PAST GEOGRAPHIES

Particularly at times of economic turbulence and uncertainty, it is all too easy to be dazzled by eye-catching forecasts about the changing shape of the global economy, especially potential winners and losers. Today, for example, we are presented with predictions of the rise of new ‘miracle’ economies: BRICs, MINTs, CIVETS, MISTs.¹ Such acronyms are seductive; people are always on the lookout for a catchy label, especially those responsible for them: notably investment bankers and business consultants. As we will see, some of these ‘acronym economies’ are more likely to be robust in the longer term than others. But we need to be careful in rushing to judgement, not least because of political uncertainties. After all, not so long ago, Yugoslavia was listed by the OECD as one of the world’s 10 leading newly industrializing economies.

In fact, the global economic map is always in a state of ‘becoming’. It is always, in one sense, ‘new’, but it is never finished. Old geographies of production, distribution and consumption are continuously being disrupted and new geographies are continuously being created. The new does not totally obliterate the old; what already exists constitutes the preconditions on which the new develops. Today’s global economic map, therefore, is the outcome of a long period of evolution during which the structures and relationships of previous historical periods help to shape – though not to determine – the structures and relationships of subsequent periods. In that sense, we cannot fully understand the present without at least some understanding of the past. Indeed, traces of earlier economic maps – earlier patterns of geographical specialization or divisions of labour – continue to influence what is happening today.

There are continuing debates over when we can first identify a ‘world’ or a ‘global’ economy. To some, this appeared during what has been called the ‘long sixteenth century’ (1450 to 1640)² or with the ‘eighteenth century transition to an industrial world’.³ To others, the key period was the 1870s.⁴ Regardless, ‘by 1914 there was hardly a village or town anywhere on the globe whose prices were not influenced by distant foreign markets, whose infrastructure was not financed by foreign capital, whose engineering, manufacturing and even business skills were not imported from abroad, or whose labour markets were not influenced by the absence of those who had emigrated or by the presence of strangers who had immigrated. The economic connections were intimate ...’⁵

Hence, over a period of 300 years or so, a *global division of labour* developed and intensified with industrialization, in which the newly industrialized economies of the West (led by the ‘Atlantic’ economies, notably the UK, some Western European countries, and later the USA) became increasingly dominant in a *core-periphery* configuration (Figure 2.1). Of course, over time, this structure became far more complex geographically. Some core economies declined to semi-peripheral status during the eighteenth century and new economies emerged, especially in the late nineteenth and early twentieth centuries. Figure 2.2 shows some of these dramatic changes,

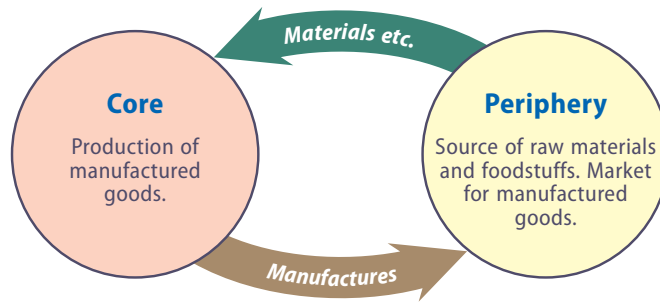


Figure 2.1 A simple geographical division of labour: core and periphery in the global economy

notably the steep decline of Asia and the emergence to unrivalled dominance of the USA, measured in terms of shares of global gross domestic product (GDP).

The broad contours of this core–periphery global economic map largely persisted until the outbreak of the Second World War in 1939. Manufacturing production remained strongly concentrated in the core: 71 per cent of world manufacturing production was concentrated in just four countries and almost 90 per cent in only eleven countries. Japan produced only 3.5 per cent of the world total. The group of core industrial countries sold two-thirds of its manufactured exports to the periphery and absorbed four-fifths of the periphery’s primary products.⁶ This long-established global division of labour was shattered by the Second World War, which destroyed most of the world’s industrial capacity (outside North America). At the same time, new technologies were created and many existing industrial technologies were refined and improved.

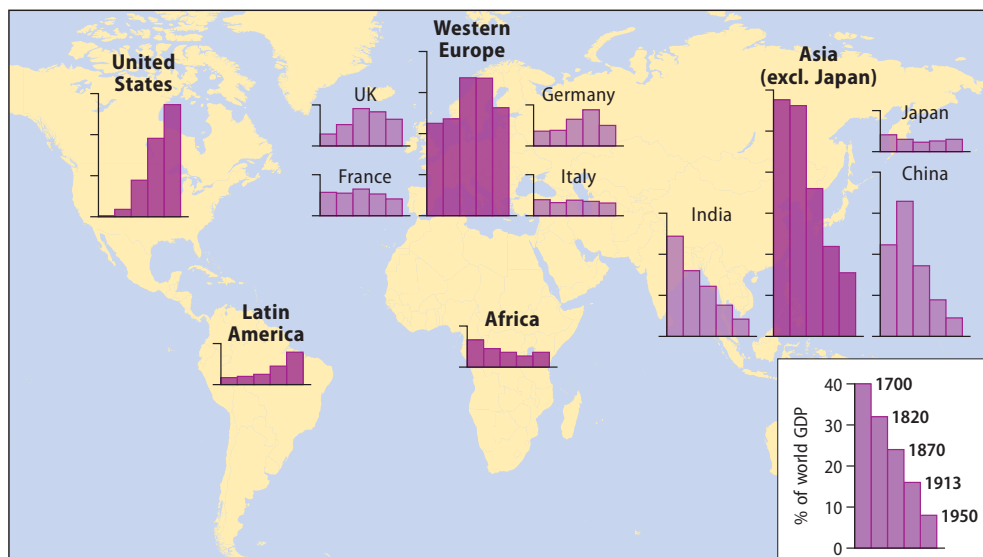


Figure 2.2 Global shifts in GDP, 1700–1950

Source: calculated from Maddison, 2001: Table B-20

The world economic system that emerged after 1945 reflected both the new geopolitical realities of the post-war period and the harsh economic and social experiences of the 1930s. The major geopolitical division of the world after 1945 was that between the capitalist West (the USA and its allies) and the communist East (the Soviet Union and its allies). In the West the economic order built after 1945 reflected the domination of the USA. Alone of all the major industrial nations, the USA emerged from the war strengthened, rather than weakened: by 1950 the USA accounted for more than one-quarter of global GDP. It had both the economic and technological capacity and the political power to lead the way in building a new order, as, indeed, it did. The Soviet bloc drew clear boundaries around itself and its Eastern European satellites and created its own economic system (the CMEA – Council for Mutual Economic Assistance or Comecon) quite separate, at least initially, from the capitalist market economies of the West until its final break-up in 1989.

ROLLER-COASTERS AND INTERCONNECTIONS

Two particularly important features have characterized the global economy since 1950: the increased volatility of aggregate economic growth and the growing interconnectedness between different parts of the world.

The volatility of aggregate economic growth

The path of economic growth certainly does not run smooth. It is a real roller-coaster. Sometimes the ride is gentle, with just minor ups and downs; at other times, the ride is truly stomach-wrenching, with steep upward surges separated by vertiginous descents to what seem like bottomless depths. Booms and slumps are endemic.

Figure 2.3 shows this roller-coaster pattern. The years immediately following the Second World War were ones of basic reconstruction of war-damaged economies. Rates of economic growth reached unprecedented levels; the period between the early 1950s and the early 1970s was seen as a ‘golden age’. In fact, it was more golden in some places than others, and for some people than others.⁷ But then, in the early 1970s, the sky fell in. The long boom went bust; the ‘golden age’ became distinctly tarnished.

Rates of growth again became extremely variable, ranging from the negative growth rates of 1982 through to two years (1984 and 1988) when growth of world merchandise trade reached the levels of the 1960s once again. But then, in the early 1990s, recession returned. In 1994 and 1995, strong export growth reappeared. A similarly volatile pattern characterized the final years of the twentieth century. There was spectacular growth in world trade in 1997, followed by far slower growth in 1998 and 1999 (partly related to the East Asian financial crisis and to its contagious effects on other parts of the world). Then, once again, there

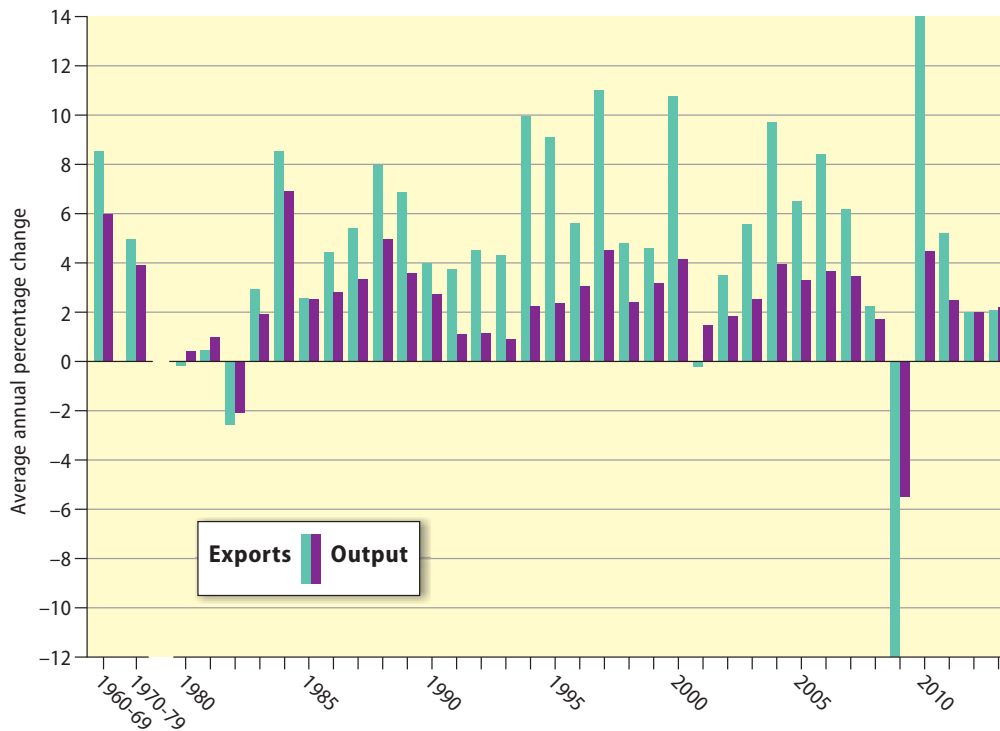


Figure 2.3 The roller-coaster of world merchandise production and trade

Source: calculated from WTO *International Trade Statistics*, various issues

was spectacular acceleration in world trade in 2000, followed by an equally spectacular bursting of the growth bubble, a problem certainly exacerbated (though not caused) by the 9/11 terrorist attacks on New York City and by the crisis in the IT (dotcom) sector of the so-called 'new' economy.

High growth rates returned once again. Then, in 2008, seemingly without warning, the deepest recession since the late 1920s suddenly occurred, triggered by the turmoil in the global financial system. In 2009, global exports *declined* by 12 per cent, in 2010 they recovered to grow by 14 per cent, in 2011 export growth was 5 per cent, in 2013 it had fallen again to around 2 per cent. The roller-coaster is back with a vengeance. Even short-term forecasts are proving very difficult and frequently being revised.

Growing interconnectedness within the global economy

One major characteristic of global economic growth, therefore, is its inherent volatility. A second is the increasing *interconnectedness* of the global economy. Such interconnectedness has three major dimensions:

- trade has grown faster than output;
- foreign direct investment has grown faster than trade;
- serious structural imbalances in the world economy have emerged.

Trade has grown faster than output

Figure 2.3 shows that exports have grown much faster than output in virtually every year since 1960. In the second half of the twentieth century, world merchandise trade increased almost 20-fold while world merchandise production increased just over 6-fold. More and more production is now traded across national boundaries; countries are becoming more tightly interconnected through trade flows. This is reflected in the ratio of trade to GDP: the higher the figure, the greater the dependence on external trade. There is huge variation between countries in such trade integration. For example, international trade is bound to be more important for geographically small countries than for large ones, the result of a simple size effect (contrast, say, the USA with Singapore). However, in virtually all cases the importance of trade to national GDP has increased significantly, as Table 2.1 shows.

Table 2.1 The increasing importance of trade for national economies (exports + imports as a percentage of GDP)

	1960	1970	1985	1995	2000	2011
<i>By income group</i>						
High income	23.7	27.1	37.3	39.8	52.0	60.0
Middle income	–	–	–	55.9	55.0	64.0
Upper-middle income	34.3	36.4	41.8	51.4	55.0	64.0
Lower-middle income	–	–	–	58.7	53.0	63.0
Low income	–	34.6	41.8	60.5	45.0	67.0
<i>By region</i>						
East Asia and Pacific	20.1	18.6	35.7	58.3	62.0	70.0
China	9.3	5.2	24.0	40.4	44.0	58.0
India	12.5	8.2	15.0	27.7	27.0	54.0
Latin America and Caribbean	25.8	23.4	30.8	35.6	44.0	49.0
Sub-Saharan Africa	47.4	44.3	51.0	56.1	66.0	71.0
World	24.5	27.1	37.1	42.5	52.0	61.0

Source: based on Kaplinsky, 2004: Table 1; World Bank, 2013

Figure 2.4 maps the network of world merchandise trade. It shows the strong tendency for countries to trade strongly with their neighbours:

- Europe is the world's major trading region (39 per cent of the world total). Almost 70 per cent of that trade is intra-regional, that is between European countries themselves. Around 13 per cent of Europe's exports go to Asia and 7 per cent to North America.

- Asia is the second most significant trade region (29 per cent of the world total): 57 per cent of its trade is conducted internally while 12 per cent of its trade goes to Europe and 9 per cent to North America.
- North America (16 per cent of the world total) conducts around 38 per cent of its trade internally. Asia and Europe each account for 31 per cent of North America's trade and Europe for 16 per cent.

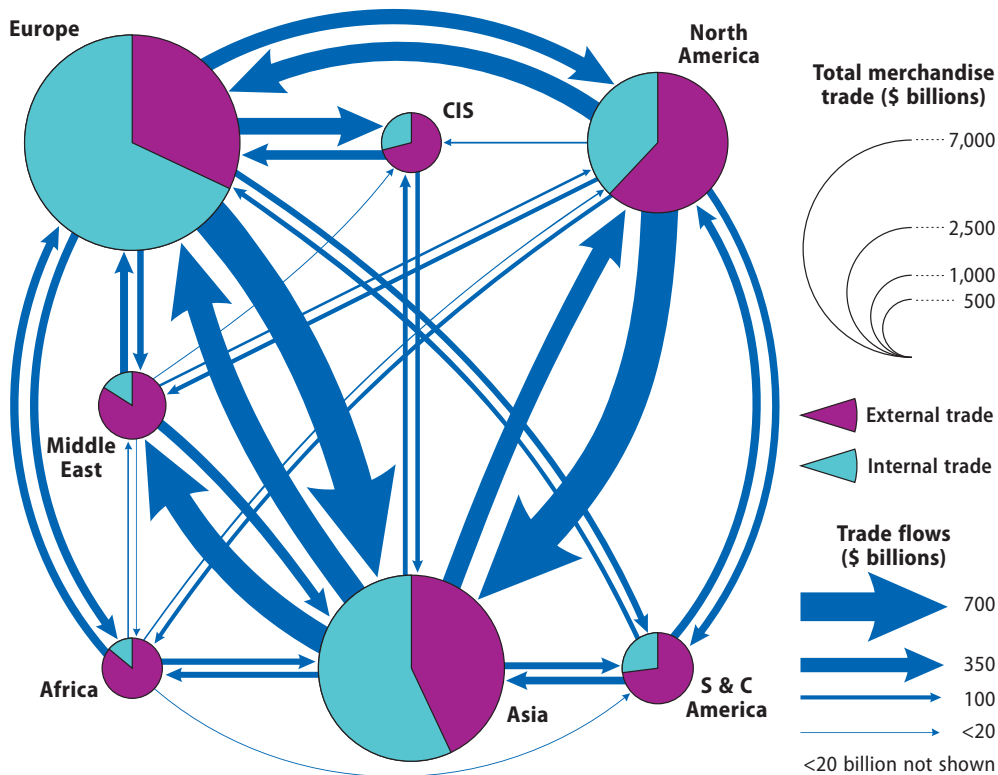


Figure 2.4 The network of world trade by region

Source: calculated from WTO, 2012: Table A2

FDI has grown faster than trade

A second indicator of growing interconnectedness is that the growth of foreign direct investment (FDI) has outpaced the growth of trade. ‘Direct’ investment is an investment by one firm in another, with the intention of gaining a degree of control over that firm’s operations. ‘Foreign’ direct investment, therefore, is direct investment across national boundaries to buy a controlling investment in a domestic firm or to set up an affiliate. It differs from ‘portfolio’ investment, through which firms purchase stocks/shares in other companies purely for financial reasons.

Although FDI grew very rapidly during the first half of the twentieth century, such growth was nothing compared with its spectacular acceleration and spread after the

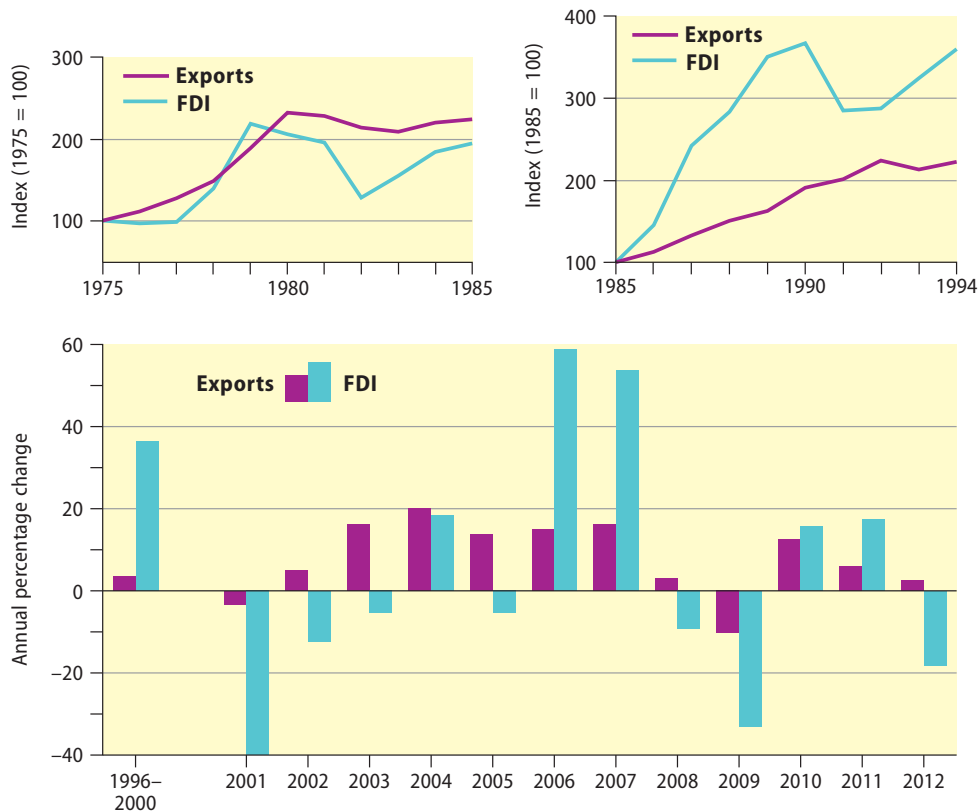


Figure 2.5 Growth of foreign direct investment compared with exports

Source: calculated from UNCTAD *World Investment Report*, various issues

end of the Second World War.⁸ Figure 2.5 shows that during the 1970s and into the first half of the 1980s the trend lines of both FDI and exports ran more or less in parallel. Then, from 1985 the rates of growth of FDI and exports diverged rapidly. With some exceptions, FDI grew faster than trade, though with very wide fluctuations since the onset of the global financial crisis in 2008. Divergence in growth trends between FDI and trade is extremely significant: it suggests that the primary mechanism of interconnectedness within the global economy has shifted from trade to FDI.

However, these trends in the growth of FDI and trade are not independent of one another. The common element is the TNC. The number of TNCs has grown exponentially over the past three decades. In 2009, there were around 82,000 parent company TNCs controlling around 810,000 foreign affiliates.⁹ TNCs account for at least two-thirds of world exports of goods and services, of which a significant share is intra-firm trade. In other words, it is trade within the boundaries of the firm – although across national boundaries – as transactions between different parts of the same firm. The ‘ball park’ estimate is that approximately one-third of total world trade is intra-firm, although that is probably an underestimate. One calculation is that 90 per cent of US exports and imports flow through a US [T]NC, with roughly 50 per cent of US trade flows occurring between affiliates of the same [T]NC.¹⁰

Unlike the kind of trade assumed in international trade theory – that trade takes place on an ‘arm’s-length’ basis – intra-firm trade is not subject to external market prices but to the internal decisions of TNCs. Such trade has become even more important as the production networks of TNCs have become more complex and, in particular, as production circuits have become more fragmented and global. Such ‘disintegration of production itself leads to more trade, as intermediate inputs cross borders several times during the manufacturing process’.¹¹ These are processes we will examine in detail in subsequent chapters.

A further measure of global integration, therefore, is the relative importance of inward and outward FDI to a country’s economy, measured by its GDP. The relative importance of FDI to national economies has increased virtually across the board, a clear indication of increased interconnectedness within the global economy. In 2011, global FDI stocks were 30 per cent of world GDP (compared with only 10 per cent in the early 1990s).¹² But, as in the case of trade, the relative importance of FDI to national economies is highly variable. Table 2.2 shows this for a sample of countries. In virtually all cases, inward FDI has increased greatly in relative importance.

Structural imbalances in the world economy

The flexing and fluxing global economic map is the outcome of the major global shifts that have occurred over the past few decades. It is made up of complex

Table 2.2 Inward FDI as a share of GDP (%)

	1990	2012		1990	2012
Australia	24.8	39.0	Poland	0.2	47.3
Canada	19.4	35.9	Argentina	6.4	23.2
Denmark	6.8	47.3	Brazil	10.1	31.2
France	7.9	39.5	Chile	46.7	77.7
Germany	6.5	21.1	China	5.1	10.3
Ireland	78.8	113.9	Hong Kong, China	262.3	552.8
Italy	5.3	17.7	India	0.5	12.2
Japan	0.3	3.5	Indonesia	6.9	23.4
Netherlands	23.3	74.2	Korea	1.9	12.7
Spain	12.7	47.0	Malaysia	21.7	43.6
Sweden	5.2	71.7	Philippines	6.7	12.4
Switzerland	14.0	100.7	Singapore	78.5	252.3
UK	20.1	54.4	Taiwan	5.9	12.5
USA	9.4	26.2	Thailand	9.3	40.7
Czech Republic	2.5	69.6	Vietnam	3.8	51.6
Hungary	1.6	81.7			

Source: based on data in UNCTAD, 2013a: Web Table 7

interconnections, most notably those constituted through networks of trade and FDI. But such flows have created huge structural imbalances within the global economy. Figures 2.6 to 2.8 map the geography of trade surpluses and deficits in manufacturing, services and agriculture. The accumulated result of these three sets of trade balances creates a huge dilemma for the global economy: the potential instability created by the fact that some countries have huge trade and current account surpluses while others have enormous deficits:

Countries with trade surpluses accumulated capital beyond their capacity to absorb it. Many ran large current account surpluses and accumulated record reserves. Countries with trade deficits financed their current account by increased borrowing abroad ... China's current account surplus rose from 2 per cent of GDP in 2000 to an average of 10 per cent during 2005–07. The largest deficits were in high-income countries, with the US accounting for more than half the world's current account deficits. The US current account deficit increased from 4.3 per cent of GDP in 2000 to an average of 6 per cent in 2005–07 ... As the global imbalances between savings and investment grew, countries with large deficits borrowed from countries with surpluses, while fast-growing exporters depended on expanding markets in deficit countries. China and other surplus economies accumulated record reserves ... and sent capital overseas. The US and other deficit countries consumed more and financed their deficits by issuing more debt and equity.¹³

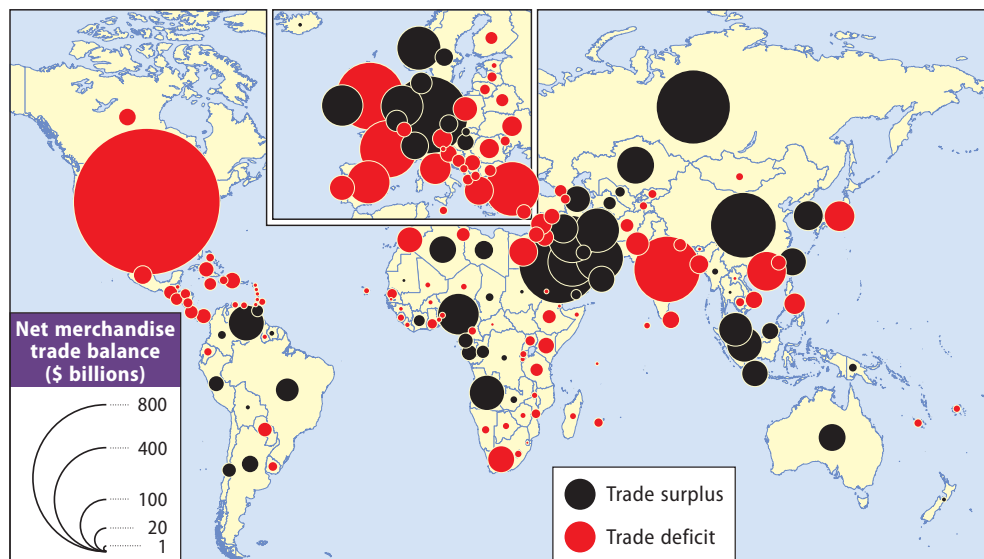


Figure 2.6 The pattern of merchandise trade surpluses and deficits

Source: calculated from WTO, 2012: Tables A6, A7

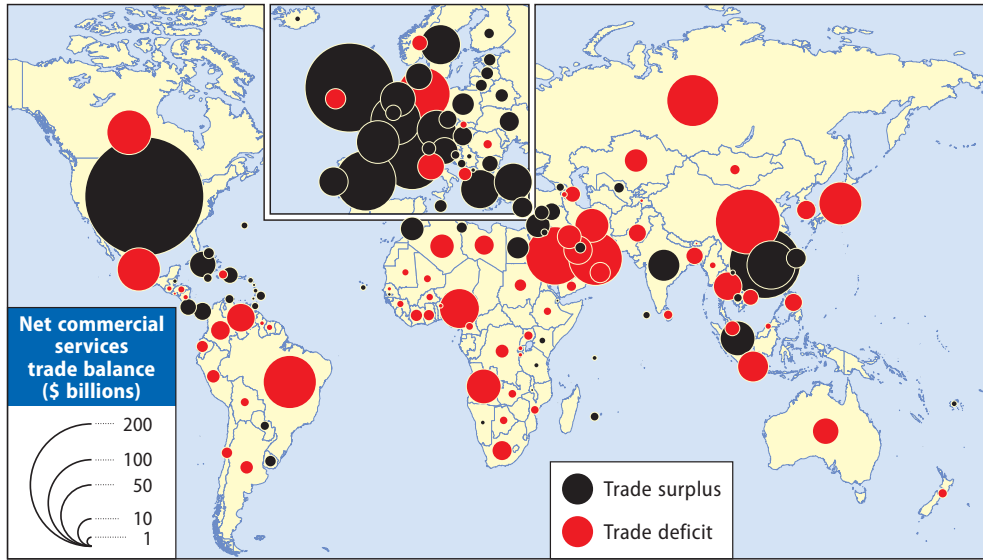


Figure 2.7 The pattern of services trade surpluses and deficits

Source: calculated from WTO, 2012: Tables A8, A9

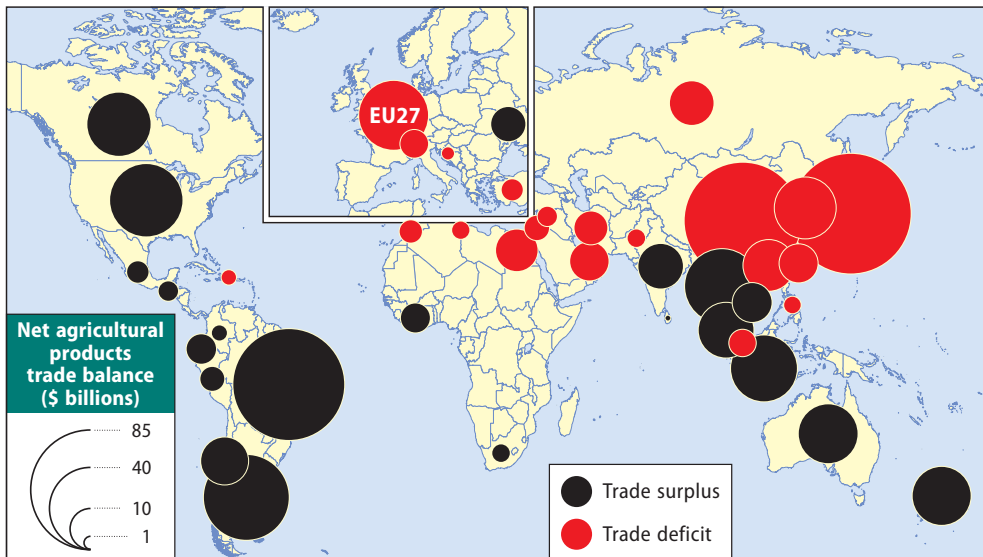


Figure 2.8 The pattern of agricultural trade surpluses and deficits

Source: calculated from WTO, 2012: Tables II.16, II.17

GLOBAL SHIFTS: THE CHANGING CONTOURS OF THE GLOBAL ECONOMIC MAP

So far, we have been concerned with broad trends in economic activity, emphasizing the volatility and increasing interconnectedness of the global economy. Now we turn to look specifically at a number of key questions about its changing *geography*.¹⁴

- Are we witnessing a major redrawing of the global economic map?
- Are the developing economies winning out at the expense of developed economies?
- Is the centre of gravity of the global economy moving away from west to east?

Let us look at the evidence, bearing in mind that short-term trends may not be an accurate predictor of long-term realities.

Continuing geographical concentration within the global economy – but a changing focus

Very substantial geographical shifts have undoubtedly occurred in the global economic map in the last few decades. At the broadest level, for example, the developing countries' share of global GDP, exports and inward FDI increased remarkably between 1990 and 2012, as Figure 2.9 shows. This is truly an epochal shift. However, by no means have all developing countries shared in the kinds of spectacular growth experienced by some over the past few decades. The figures tend to be heavily influenced by a few 'big hitters', notably China most recently and, before that, the so-called four Asian 'tigers' (Hong Kong, Korea, Singapore and Taiwan). Of course, the popular bets, at least by some financial analysts, have recently been on the 'acronym economies' mentioned at the beginning of this chapter: the BRICs, MINTs, CIVETS, MISTs. These, it has been claimed, will become the major players in a future world economy. Maybe they will. Certainly they have experienced rapid rates of economic growth in recent years, but it is far from clear that this is sustainable in every case. Indeed, in early 2014, the effects of US policy changes on its 'quantitative easing (QE)' policy led to increased pressure on the financial markets of several major emerging market economies, raising fears of serious capital flight from some of them.¹⁵

Figure 2.10 compares annual GDP growth between 2005 and 2012 for developed and developing countries as a whole and for a selection of individual countries. The contrasts are striking: GDP growth rates for developing countries were consistently very much higher than those for developed countries, in a few cases spectacularly so. But by 2013, there were clear signs of slowdown among many of these emerging market countries. Indeed, both the IMF and the OECD suggested

in 2013 that ‘momentum in the global economy is shifting away from emerging markets and back towards advanced economies after years in the doldrums’.¹⁶ It is also important to stress that catching up is a slow process; that is why the contours of the global economy tend to change far more slowly than the short-term data often suggest. Once again, we need to beware of extrapolating short-term predictions into long-term certainties.

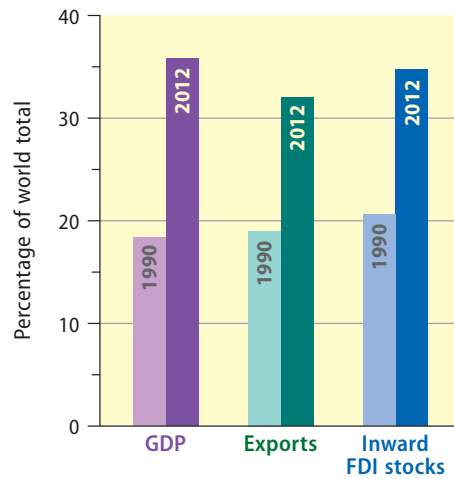


Figure 2.9 Developing countries’ increasing shares of production, trade and foreign direct investment

Source: calculated from World Bank and UNCTAD data

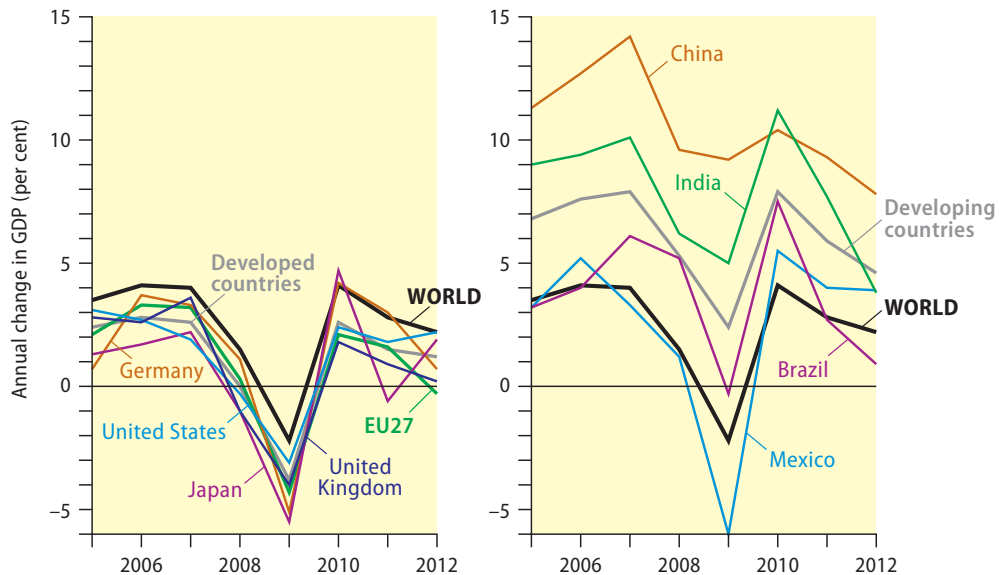


Figure 2.10 Annual GDP growth rates

Source: calculated from UNCTAD, 2013b: Table 1.1

In fact, the geographies of production, trade and FDI remain highly uneven and strongly concentrated. Around three-quarters of global manufacturing and services production, and around 90 per cent of world agricultural production, are concentrated in just 15 countries (Figures 2.13 to 2.15). Around one-fifth of world trade in goods, services and agriculture is generated by the two leading countries in each sector (Figures 2.16 to 2.18). The picture is similar in the case of FDI (Figure 2.19): more than 80 per cent of outward FDI stock originates from 15 countries. The leading two source countries – the USA and the UK – account for 30 per cent of the world total (Figure 2.20). Half of all the inward FDI in developing countries is concentrated in just five host countries; almost 30 per cent is concentrated in China and Hong Kong alone (Figure 2.21).

The USA still dominates the global economy – though less than it did

The USA has been the pre-eminent force in the global economy for almost 100 years, having displaced the original industrial leader, the UK, early in the twentieth century. However, its dominance has been much reduced as other competitors have emerged (see Figures 2.13 to 2.20). The USA has been overtaken as the world's leading manufacturing producer by China, although it is still the leading producer of commercial services (24 per cent). It remains the world's biggest foreign direct investor, the largest exporter of commercial services and agricultural products, and the third largest exporter of manufactured goods.

Between 1980 and 2003, US GDP grew at an annual average rate slightly above the world growth rate. But, as Figure 2.10 shows, its more recent growth has been weaker. Over the longer run, the deterioration in the US position is most apparent in the trade data, although trade is a smaller proportion of GDP in the USA than in all its major competitors, apart from Japan. Nevertheless, the US share of world merchandise exports has fallen from 17 per cent in 1963 to 8 per cent in 2011. At the same time, its share of merchandise imports has surged from less than 9 per cent to 12 per cent. Although US merchandise exports have grown at around 5 per cent a year, imports have grown at between 8 and 9 per cent a year. As a result, as we have seen, the USA has an enormous trade deficit.

There have also been very substantial changes in the US position as a source of, and destination for, FDI. In 1960, the USA generated almost 50 per cent of all the world's FDI, compared with around 20 per cent today. The biggest change, however, has been in the country's position as a host for FDI. Although the USA has attracted FDI for many decades, such inward investment was always a tiny fraction of the country's outward FDI. However, the USA has become significantly more important as an FDI destination. Inward and outward FDI are now much more balanced than in the past.

Europe is still a major player – but its performance is highly uneven

Europe, as a region, is the world's biggest trading area and the primary focus of global FDI. However, despite being the most politically integrated region in the world (see Chapter 6), the European economy is extremely diverse, experiencing variable rates of growth over the past two decades, as well as uneven rates of decline in the post-2008 recession. Between 2000 and 2007, the average annual rate of GDP growth in the core European countries was 2.3 per cent, significantly lower than the world average of 3.2 per cent and way behind those of East Asia and, indeed, of Eastern Europe. That differential widened in the post-2008 period (Figure 2.10).

Prior to 2008, the fastest growing Western European countries were the more 'peripheral' economies of Finland, Norway, Greece, Ireland and Spain. However, the last three, together with Portugal, were devastated by the 2008 recession and experienced severe contraction. The major difficulties facing Europe arise primarily from the wide economic divergences between member states in what is now a 28-state union. In particular, the massive strains experienced by many EU economies in the post-2008 recession – especially those of the weaker countries within the eurozone – pose problems that have no simple solutions.

Germany is by far the biggest European economy: the fourth largest manufacturing producer (after China, the USA and Japan), the second largest manufacturing exporter (recently overtaken by China), the third largest commercial services exporter and the third most important source of FDI.

Europe's second biggest economy, the UK, has experienced the greatest long-term relative decline insofar as it once dominated the world. It is now only the 10th-ranked manufacturing producer. However, it is still the world's second biggest source of FDI and second biggest exporter of commercial services.

There are considerable differences in trade performance between individual European countries. Whereas France, the UK, Spain and Italy have merchandise trade deficits, Germany, the Netherlands and Sweden have surpluses. In contrast, in commercial services the UK has a big trade surplus, France and Spain modest surpluses, while Germany has a substantial deficit.

Europe remains a major magnet for inward investment as well as the leading source of outward FDI.

Emergence of the 'transitional economies' of Eastern Europe and the Russian Federation

On 9 November 1989, the Berlin Wall came crashing down, making possible the reunification of West and East Germany. But this unforeseen event was of much broader significance. It represented both a concrete and a symbolic indicator of enormous geopolitical (and geoeconomic) change. The political collapse of the Soviet-led group of countries, and, indeed, of the Soviet Union itself, produced a group of so-called 'transitional economies': former command

economies that transformed themselves into capitalist market economies. The process of transition, from a centrally planned economic system, with a heavy emphasis on basic manufacturing industries, to a capitalist market system, was painful and turbulent in many cases. The kinds of industries favoured in the centrally planned system were less viable in the context of a highly competitive global economy, as were the kinds of industrial organization themselves. In 1985, for example, the Soviet Union accounted for almost 10 per cent of world manufacturing output; by the mid-1990s, the share of the Russian Federation was around 1 per cent. Today, its share is 2.5 per cent. Nevertheless, Russia – identified as one of the BRICs – has become an increasingly significant presence in the global economy, especially in terms of its wealth of extractive resources, including oil and gas.

The transitional economies within Europe are a very diverse group. No fewer than 11 of them have become members of the EU and are therefore subject to both its opportunities and its constraints. These economies achieved impressive export performances during the 1990s. Poland, Hungary and the Czech Republic each had double-digit export growth while the Russian Federation and Slovenia grew at around 7–8 per cent per year. Such growth was underpinned largely by inward FDI, which grew substantially from the early 1990s, especially in the Czech Republic, Hungary, Poland and Slovakia. Much of this was driven by the shift of parts of firms' production networks from Western Europe to lower-cost Eastern European economies, as both the clothing and automobile industries demonstrate (see Chapters 14 and 15).¹⁷ Between 2000 and 2007, the annual average growth rate of the leading Eastern European countries was 5.2 per cent, that of Russia was 6.6 per cent, on a par with, or even better than, some of the East Asian economies. However, the 2008 crisis created huge problems for these still rather fragile economies. Growth rates since then have been very low indeed, as has been the case in Europe as a whole as we have seen.

'Back to the future': the resurgence of Asia

By far the most significant global shift in the world economy during the past 50 years was a real 'back to the future' event: the *re*-emergence of Asia as the world's most dynamic economic region.¹⁸ As Figure 2.2 shows, in 1700 Asia dominated the world economy: its share of global GDP was 62 per cent compared with the West's 23 per cent. But by 1950 those positions had been almost exactly reversed: the combined GDP of Western economies was almost 60 per cent; that of Asia (including Japan) was a mere 19 per cent. Much of this was due to the relative economic decline of China and India. In 1700, their combined share of global GDP was almost 50 per cent; by 1950, it had plummeted to less than 10 per cent. They had become totally peripheral. Today, the picture is so very different.

Although it often seems that the resurgence of Asia is just about China, it is, in fact, very much more than that. We can see it as a sequence of four developments:

- The rise of Japan after the Second World War.
- The rapid growth of what came to be called the ‘four tigers’: the newly industrializing economies of Hong Kong, Korea, Singapore and Taiwan. This was followed by the emergence of a second tier of East Asian developing economies, primarily Indonesia, Malaysia and Thailand.
- The (re-)emergence of China – the ‘dragon’ – as the increasingly dominant player in the global economy.
- The potential economic dynamism of India.

Japan

The world has become so obsessed with China that we tend to forget just how spectacular Japan’s post-war economic growth really was. It is worth restating. Starting in the 1960s, Japan substantially transformed the global economy and laid the foundations for the subsequent development of other parts of East Asia. In the early 1960s, Japan ranked fifth in the world; by 1980 it had risen to second place. During the 1960s, Japan’s rate of manufacturing growth averaged 13.6 per cent per year: two-and-a-half times greater than in the USA and four times greater than in the UK. The Japanese economy continued to grow at very high rates throughout the 1970s and most of the 1980s. Japan’s share of world FDI grew from less than 1 per cent in 1960 to almost 12 per cent in 1990. As a result, ‘Japan Inc.’ came to be seen as the biggest threat facing both the USA and Europe, as a deluge of polemical, protectionist literature (especially in the USA) at the time demonstrated.

In the late 1980s, however, Japan’s rapid growth rate fell as dramatically as it had risen in the 1960s, with the collapse of its so-called ‘bubble economy’. Between 1990 and 2003, Japanese GDP grew at an annual average rate of only 1.2 per cent and its manufacturing sector by a mere 0.7 per cent. Merchandise exports, which had grown at almost 9 per cent a year between 1980 and 1990, grew at less than 3 per cent a year between 1990 and 2003. Growth was even lower between 2000 and 2007 (a mere 1.7 per cent). The US fear of the Japanese threat receded; the ‘bash Japan’ literature virtually disappeared. Nevertheless, Japan remains the world’s third largest manufacturing economy and the second largest producer of commercial services. Japan’s decline has been very much exaggerated.

The four tigers

At the same time as Japan was surging up the ranks of industrialized countries, a small group of East Asian developing countries also appeared on the scene as foci of manufacturing growth, especially in labour-intensive industries. The ‘pioneers’ were the so-called four ‘tiger’ economies of Hong Kong, Korea, Singapore and Taiwan. In terms of manufacturing production, for example,

- Korea’s manufacturing sector grew at annual average rates of 18 per cent during the 1960s, 16 per cent during the 1970s, 13 per cent during the 1980s and 7 per cent during the 1990s (to 2003);

- Taiwan's manufacturing sector grew at rates of 16 per cent, 14 per cent, 8 per cent and 6 per cent respectively during the same periods.

Subsequently, Malaysia, Thailand and Indonesia also displayed extremely high rates of manufacturing growth.

In the global reorganization of manufacturing production and trade the increased importance of East Asia as an exporter of manufactures was unique in its magnitude. Seven East Asian NIEs (Korea, Hong Kong, Singapore, Taiwan, Indonesia, Malaysia, Thailand) increased their collective share of total world manufactured exports from a mere 1.5 per cent in 1963 to almost 20 per cent in 1999 (and remember that this period included the East Asian financial crisis of 1997–8, which had a devastating effect on most of the East Asian economies). By 2011, this share had declined to 13 per cent, largely as a result of the growth of China.

So, it is in their role as exporters that the East Asian economies are especially significant. In some cases the transformation of their domestic economies was spectacular. For example, in 1980, less than 20 per cent of Malaysia's exports were of manufactures; by 1998 the figure was 79 per cent. In 1980 a mere 2 per cent of Indonesia's exports were of manufactures; in 1998 almost half was in that category. Others show a similar transformation. But they now face a very different competitive environment. Between 2000 and 2007, these economies grew at an annual average rate of 5.2 per cent; significantly above the world average, but far lower than in their 'golden age'.

China: rebirth of the dragon

Without question, the most recent, and the biggest, development within East Asia – indeed in the global economy as a whole – is the (re-)emergence of China. China has rather suddenly become a hugely significant presence in the global economy and 'China bashing' has replaced the 'Japan bashing' of an earlier period. Between 1980 and 2003, China's growth rate was the highest in the world, with annual average rates of well over 10 per cent. This remarkably high rate continued through to 2007. The 2008 global crisis inevitably had an effect and growth slackened, but it was still of the order of 9 per cent. Even in 2012, China's GDP grew by 7.8 per cent. Its average annual rate of growth of merchandise exports was 13 per cent in the 1980s and 14 per cent between 1990 and 2003. Exports as a share of China's GDP increased from 38 per cent in 2002 to over 50 per cent in 2012. As a result, China is now the world's largest manufacturing producer, the largest agricultural producer, the largest exporter of merchandise and the world's second largest importer (Figures 2.13 to 2.16). China has, indeed, become a 'mega-trader' (Figure 2.11).¹⁹

Figure 2.12 shows China's global trade networks in manufactures and fuels and mining products. The contrast between the two is striking. In the case of manufactures, exports dominate: China's main markets for its manufactures are other

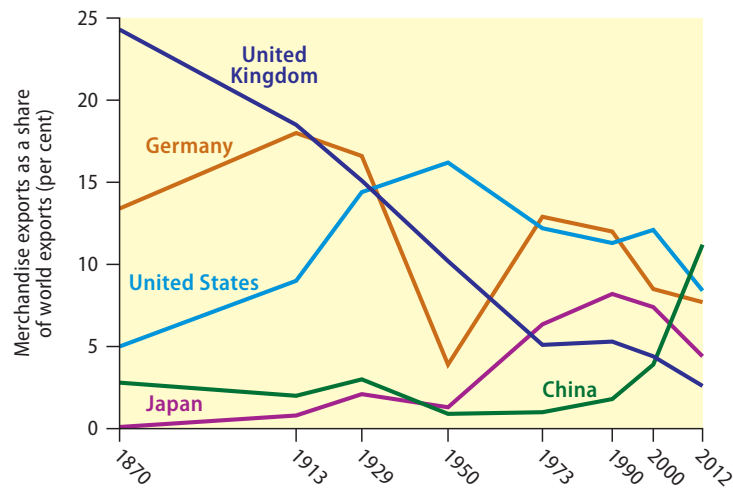


Figure 2.11 The rise of China as a world ‘mega-trader’

Source: based on data in Subramaniam and Kessler, 2013: Table 2.2

parts of Asia (42 per cent), Europe (21 per cent) and North America (20 per cent). In the case of fuels and mining products, imports dominate: China’s main sources for these commodities are Asia (33 per cent), the Middle East (22 per cent), Africa (13 per cent) and South and Central America (14 per cent).

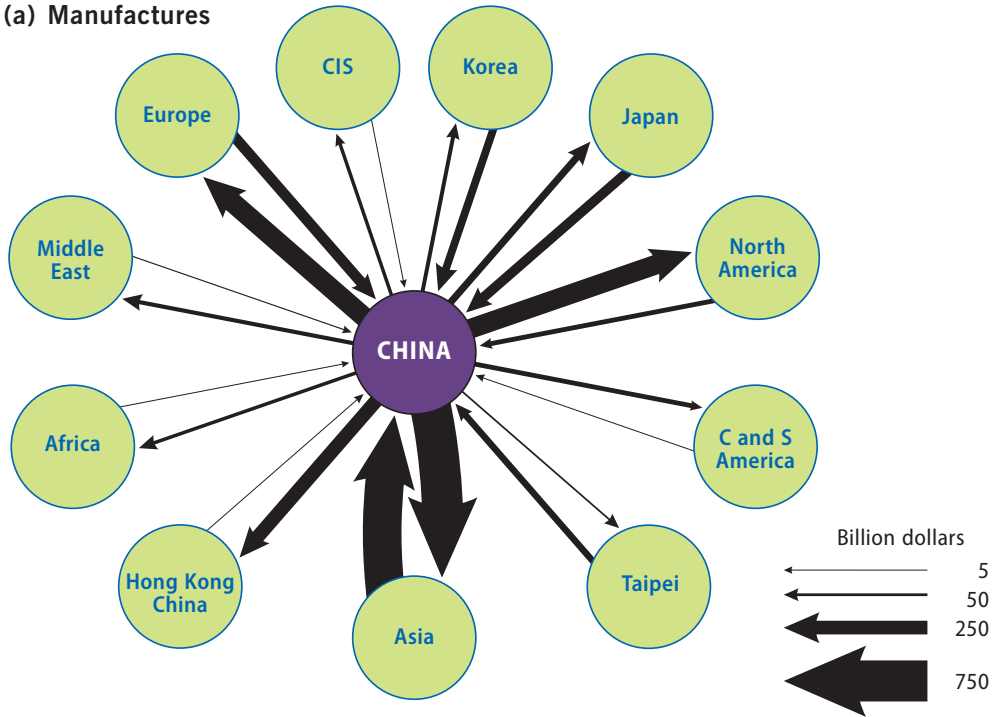
The immense impact of China on the global economy over the past two decades has been especially significant in three major ways:²⁰

- Through its effect on the *prices of commodities*. China is by far the world’s biggest consumer of steel, aluminium, copper, zinc and nickel.
- Through its effect on the prices of manufactures, especially of labour-intensive products.
- Through its impact on capital flows, because of its accumulation of huge current account surpluses and foreign currency reserves.

Overall, then,

the entry of China’s massive labour force into the global economy may prove to be the most profound change for 50, and perhaps even for 100 years ... China’s growth rate is not exceptional compared with previous or current emerging economies in Asia, but China is having a more dramatic effect on the world economy because of two factors: not only does it have a huge, cheap workforce, but its economy is also unusually open to trade. As a result, China’s development is not just a powerful driver of global growth; its impact on other economies is also far more pervasive ... China’s growing influence stretches much

(a) Manufactures



(b) Fuels and mining products

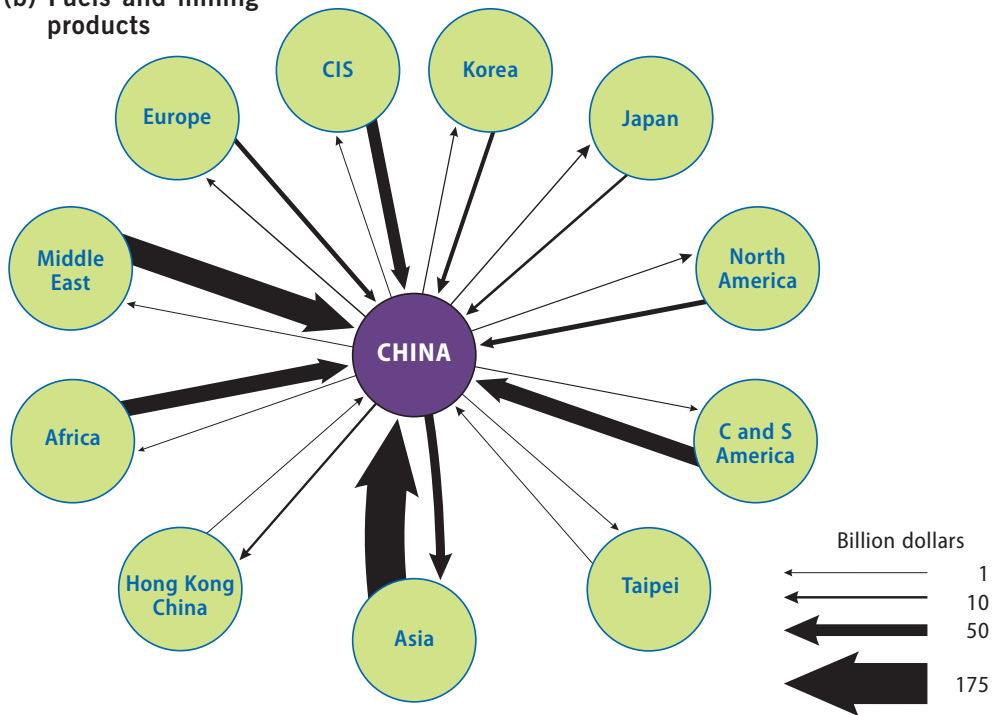


Figure 2.12 China's global trade network

Source: WTO, 2012: Table A22

deeper than its exports of cheap goods: it is revolutionising the relative prices of labour, capital, goods and assets in a way that has never happened so quickly before.²¹

Indian promise

Although most of the focus remains on China, recent attention has been drawn to the other very large Asian country (in population terms): India. Indeed, some commentators envisage a world economy that will increasingly be dominated by 'Chindia', defined by one writer as 'where the world's workshop meets its office',²² an allusion to China's growth as a manufacturer and to India's growth in IT services. But beware the hype.

India has certainly shown spectacular growth in one specific type of economic activity: the outsourcing of IT services (software, data processing, call centres and the like). As such it has attracted huge publicity and a growing view that India could be 'the next China', given the size of its population and other advantages. That may be so. But, at present, the evidence is slender. India's GDP growth rate between 1980 and 2003, though well above the world average at between 5 and 6 per cent, was half that of China during the same period. Between 2000 and 2007, this difference lessened but remained significant. More recently, however, India's GDP growth has been only half that of China's.

India is the world's 11th largest manufacturing economy; China is number 1; India is not in the top 15 merchandise exporters, China is again number 1. Of course, it might be argued that India's strength lies in services rather than in manufacturing. Certainly it is true that the share of services in India's GDP is much higher than China's: 56 per cent compared with 42 per cent. Conversely, India has only 14 per cent of its GDP in manufacturing, compared with China's 30 per cent. Despite this, China generated one-third more commercial services exports than India in 2011. Unlike all the other fast-growing East Asian NIEs, India does not have a strong export base in manufactures. China's merchandise exports are six times larger than India's. Indeed, if India is ranked along with the leading NIEs of East Asia in terms of merchandise exports, India appears below Hong Kong, Korea, Singapore and Taiwan, despite being many times bigger than any of them. None of this is to suggest that India does not have the *potential* to become a really major economic power, but, at present, the evidence is rather thin.²³

Latin America – unfulfilled potential

The Latin American and Caribbean region is once again facing a crisis of development. In 2005–6, growth rates lagged behind those of emerging economies in Africa, Asia and Eastern Europe and, except in certain pockets, indicators of social and human development were uninspiring and levels of inequality remained the highest in the world.²⁴

Latin American countries are among the most resource-rich in the world. Several also have a long history of industrialization. Some, like Brazil and Mexico, are, in population terms, very large indeed. And yet most of the Latin American economies have not figured very prominently in the redrawing of the global economic map. Certainly, their modest economic performance contrasts sharply with that of East Asia. Within Latin America itself, there is huge diversity between individual economies. In general, however, few of them have ‘punched their weight’ as exporters. Over the past 20 years, their average export growth has been significantly lower than that of the East Asian economies.

Recently, as we saw earlier, the money has been on Brazil, as one of the BRICs. However, Brazil’s GDP growth rate between 2000 and 2007 was by far the lowest of the four BRICs: half that of Russia, one-third that of China and less than half that of India. Its performance between 2008 and 2012 was rather stronger but, most recently, Brazil has been hit by the slowdown in commodity prices (especially by demand from China). Despite a long history of industrialization, and some undoubted successes (in automobiles, for example – see Chapter 15), Brazil’s involvement in the world economy is mainly in primary commodities (agriculture, mining products). As such, it is highly vulnerable to fluctuations in commodity prices. Like India, Brazil has enormous economic potential but such potential is still far from being realized.

Mexico, on the other hand, has fared rather better, though very unevenly. Its very high export growth rate in the 1990s reflected its increasing integration with the USA through the North American Free Trade Agreement (see Chapter 6). However, Mexico’s GDP growth between 2000 and 2007 was the lowest among the region’s major economies (2.6 per cent, well below the world average as well). It seemed to be failing to take advantage of its preferential access (including its geographical proximity) to the USA. In particular, Mexico was being out-competed in the US market by China:

Over half of Mexico’s non-oil exports are under partial or direct threat from their Chinese counterparts. This ‘threat’ comprises all but a handful of Mexico’s top 15 exports. What is more, recent changes indicate that Mexico’s loss of export competitiveness to China may also be threatening the technological sophistication of its exports. Since 1994, Mexico has gained ground on China only in primary products ... Thus, Mexico is losing out in sectors abundant in unskilled labor where value-to-transport costs are cheap, but holding steady in assembly sectors where transport costs are more significant, and NAFTA’s rules of origin serve as local content rules mandating that production stays in North America, such as lorries and autos.²⁵

Recently, however, Mexico has performed much more strongly. Its competitiveness vis-à-vis China in the North American market has strengthened because of

its advantageous geographical proximity (expressed in terms of time and cost of delivery). Between 2008 and 2012, Mexico's average annual GDP growth was 3.9 per cent compared with Brazil's 0.9 per cent.

The persistent peripheries

Alongside the areas of strong, though differential, economic growth in the global economy – the peaks as it were – are those parts of the world whose economic growth remains very limited. These are the 'persistent peripheries'. All of the maps shown at the end of this section tell more or less the same story: much of the continent of Africa, parts of Asia and parts of Latin America constitute the 'troughs' of the global economic map. Sub-Saharan Africa (SSA) is the largest single area of 'economic peripherality'. These are the parts of the world enmeshed in the deepest poverty and deprivation and whose existence poses one of the biggest social challenges of the twenty-first century.

But not all is gloom, by any means. Indeed, growth rates in many parts of Africa have risen substantially (albeit from very low base levels). According to the World Bank in 2013:

The economic outlook for Sub-Saharan Africa is positive with growth rising to 5.3% in 2012 and 5.6% in 2013 ... African exports rebounded notably in the first quarter of 2012, growing at an annual pace of 32%, up from the -11% pace recorded in the last quarter of 2011. Growth has been widespread, with over a third of SSA countries posting six per cent or higher rates with another 40% growing between four to six per cent. Among fast-growing countries in 2011 were resource-rich countries such as Ghana, Mozambique and Nigeria.²⁶

However, the continuation of such growth, especially for those peripheral countries heavily dependent on exporting commodities, is highly susceptible to external shocks. For example, there is no doubt that the insatiable demand by China for resources has driven recent growth in several African countries. Any major slowdown in Chinese growth, therefore, would have adverse effects. As always, there is the underlying danger of the 'resource curse' (see Chapter 10: p. 340).

THE CENTRE OF GRAVITY HAS SHIFTED

During the past six decades, the world economy has experienced enormous cyclical volatility, what we have described as the 'roller-coaster'. Underlying such cyclical trends, however, are deeper, longer-term *structural* changes, notably in the *geography* of the global economy, which has become increasingly *multi-polar*. New

centres of production – new geographical divisions of labour – have emerged in parts of what had been, historically, the periphery and semi-periphery of the world economy. There have been big changes in the relative growth rates of different parts of the world. There has been a relative shift, in aggregate terms, from developed to developing economies although this should not be over-stated or, indeed, taken for granted. Many parts of the world remain, to a greater or lesser degree, disarticulated from the engines of economic growth.

Without doubt, the biggest single global shift reshaping the contours of the global economic map is the resurgence of East Asia to a position of global significance, commensurate with its importance before ‘the West’ overtook it in the nineteenth century. But this has not been a sudden event. As we have seen in this chapter, the resurgence of East Asia since the 1960s was manifested, initially, in the rise of Japan, whose spectacular growth across a whole range of manufacturing sectors transformed competitive relationships in the global economy. The relative decline of the Japanese economy in the 1990s was, however, counterbalanced by the spectacular (re-)emergence of China. At the same time, the original four ‘tiger’ economies continued to consolidate their strengths. The result is an *undoubted shift in the centre of gravity of the world economy*, a shift that seems now to be on solid foundations and not a mere passing phase.

But what of the future shape of the global economic map? It is always tempting to extrapolate recent trends. There is, of course, some logic in this. After all, there is a strong element of path dependency in human affairs. But it is not as simple as that. Path dependency does not mean determinacy. All paths have branching points: some go off in unexpected directions, others into dead-ends. Hence, it is almost impossible to identify with certainty which contemporary events and circumstances will have long-lasting effects. For example, when the East Asian financial crisis broke with such suddenness in 1997, the literature was full of prophecies of doom: the end of the East Asian ‘miracle’ had arrived. The future of the region was dire. Few would make those same predictions today. What of the outcome of the post-2008 financial crisis? Because we are still in the thick of it we cannot really see how the world will look in a few years’ time.

Similarly, looking a little further back in time, who, from the standpoint of 1960, would have predicted that Japan would soon challenge the USA as an economic power and, in some respects, overtake it to the extent that, in the 1980s, doomsayers in the USA were lamenting the demise of their country as the world’s leading economy? Japan bashing became a national pastime (and not only in the USA – there were outbreaks in Europe, too, especially in France). Who would have predicted that the Japanese economy itself would suddenly find itself deep in economic recession lasting for more than a decade and a half?

Who would have predicted that South Korea would become one of the world’s most dynamic economies within the space of 20 years or so? After all, in 1960, South Korea was one of the poorest countries in the world, with a per capita income comparable with that of Ghana. Which observer in the early 1970s would have predicted that China would open up its economy and become, in a very

short time, the most dynamic economy in the world? Or that the command economies of the Soviet Union and Eastern Europe would, by the end of the 1980s, begin to be transformed into capitalist market economies? Such examples should make us wary of prediction. But we do not learn. We are seduced, far too easily, by big numbers and by spectacular events. We focus too eagerly on the quantitative, rather than the qualitative, dimensions and processes of change.

This raises a much bigger question: will the tendency towards an increasingly highly interconnected and interdependent global economy intensify? Will the geographical centre of gravity continue to shift? Is 'globalization' an inexorable and unstoppable force? Not inevitably, as the period between 1919 and 1939 shows. During that time, the unprecedented openness of the world economy that had come into being in the period between 1870 and 1913 was largely reversed through the actions of states responding to recession through increased protectionism. It took several decades to return to a similar degree of openness, by which time the world was a very different place. Of course, the interconnections within the global economy are now much deeper – and faster – than in the past because of the ways in which the processes of production and distribution have been transformed. Primarily, this is because of the development of highly complex, geographically extensive, global production networks, which form the starting point of Part Two.

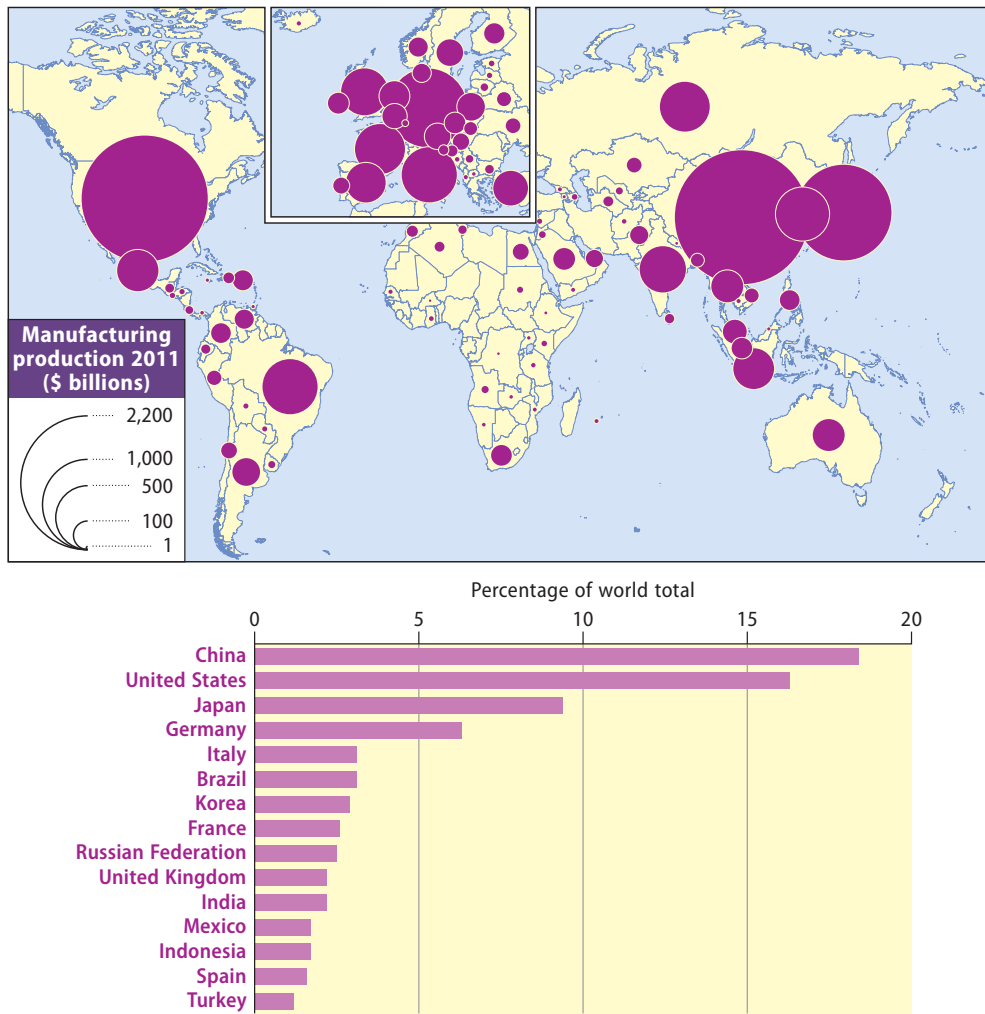


Figure 2.13 The global map of manufacturing production

Source: calculated from World Bank, *World Development Indicators*, 2013: Table 4.2

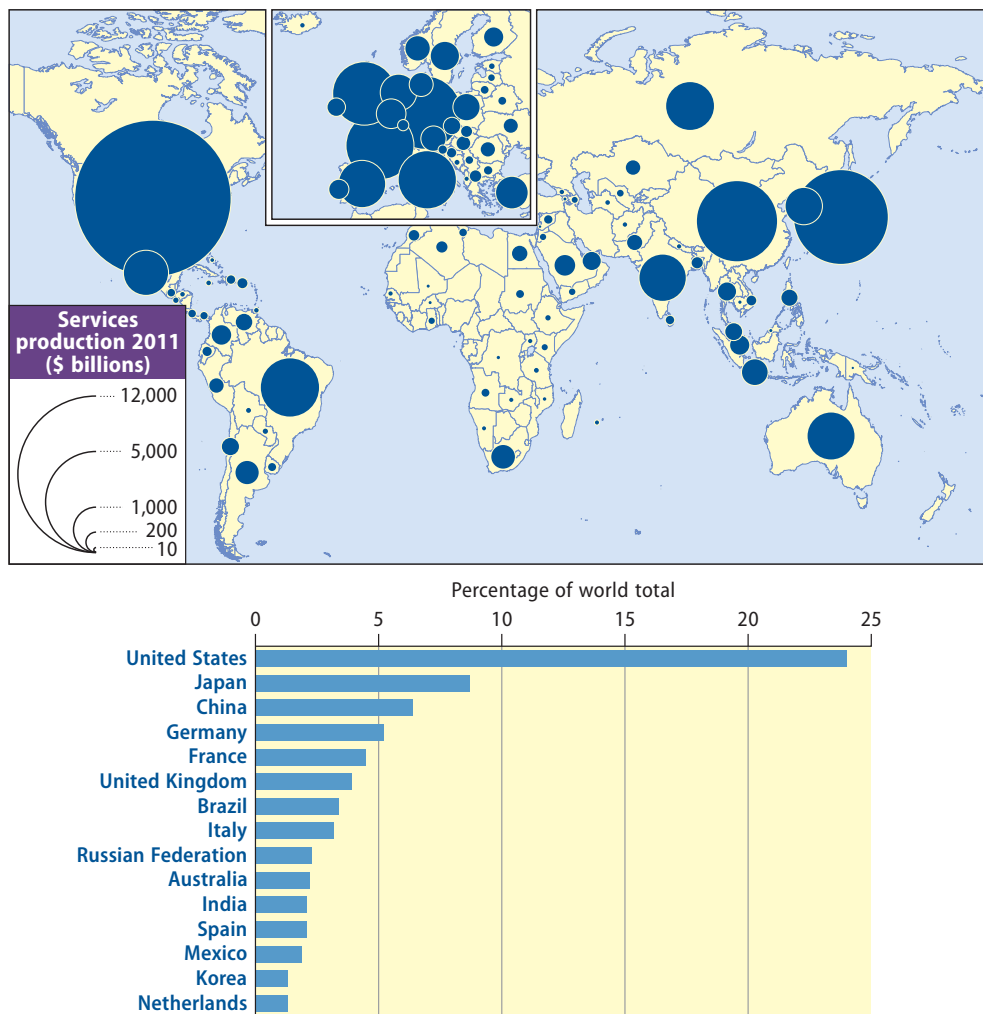


Figure 2.14 The global map of services production

Source: calculated from World Bank, *World Development Indicators*, 2013: Table 4.2

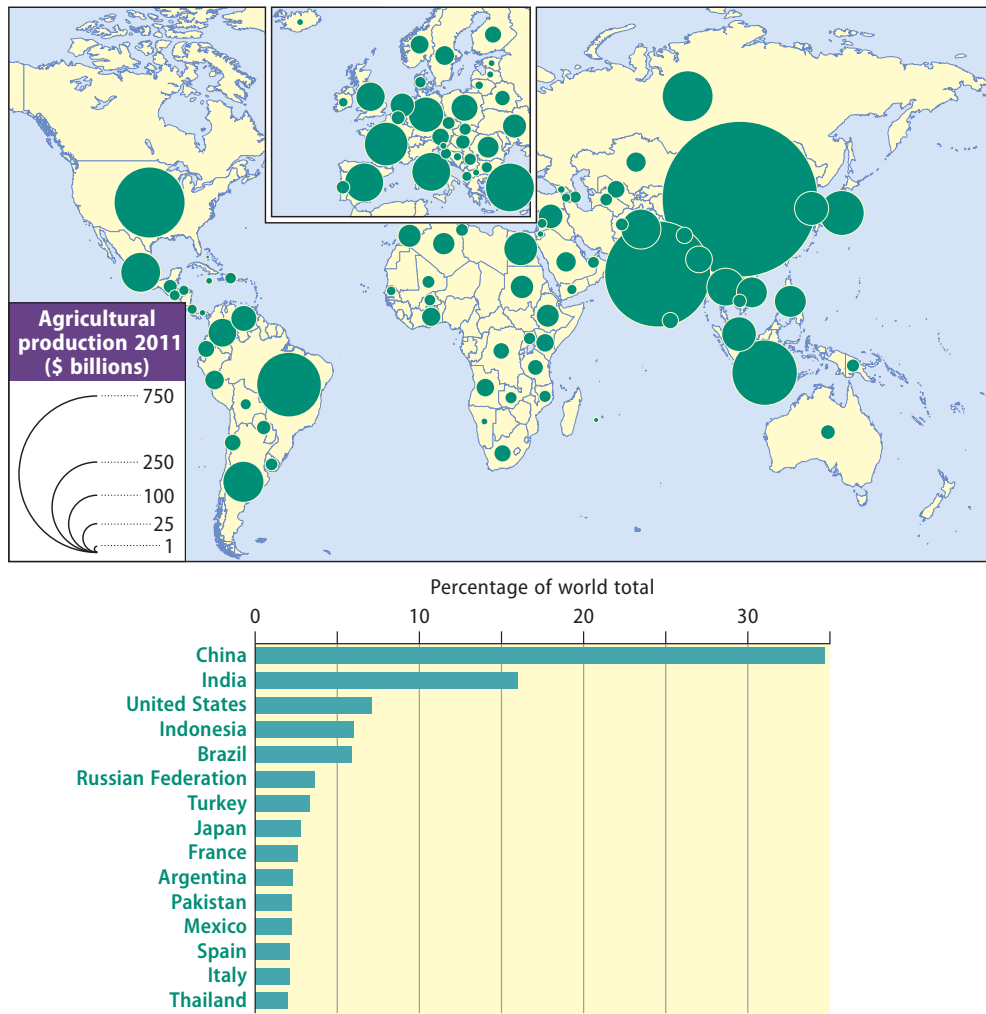


Figure 2.15 The global map of agricultural production

Source: calculated from World Bank, *World Development Indicators*, 2013: Table 4.2

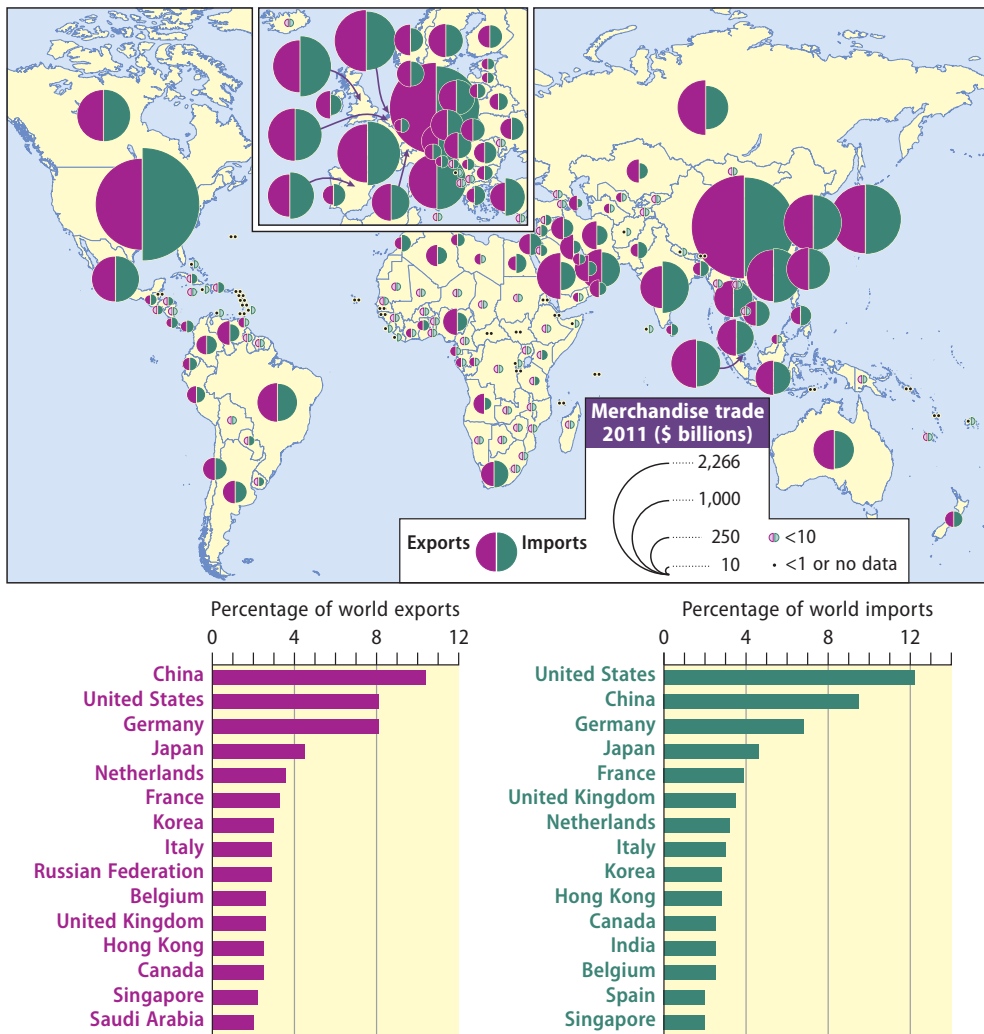


Figure 2.16 The global map of merchandise trade

Source: calculated from WTO, 2012: Tables A6, A7

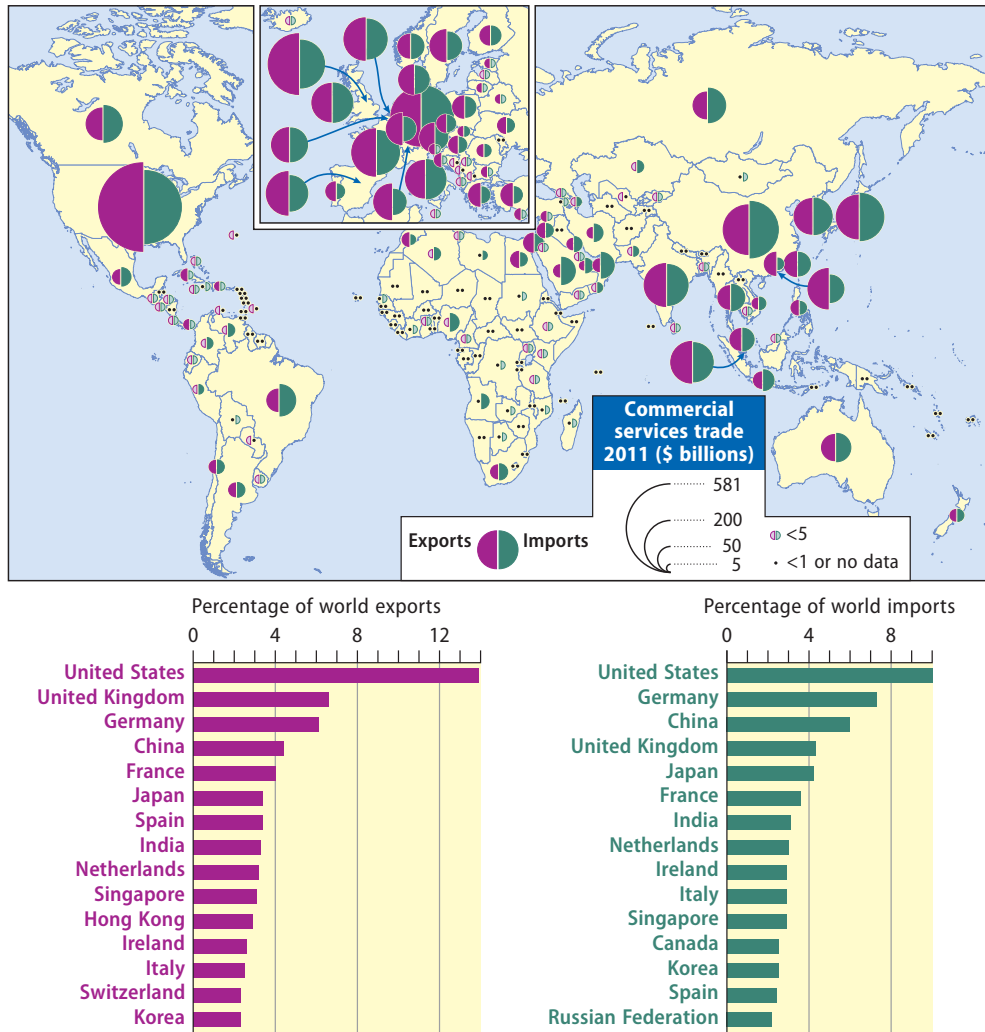


Figure 2.17 The global map of services trade

Source: calculated from WTO, 2012: Tables A6, A7

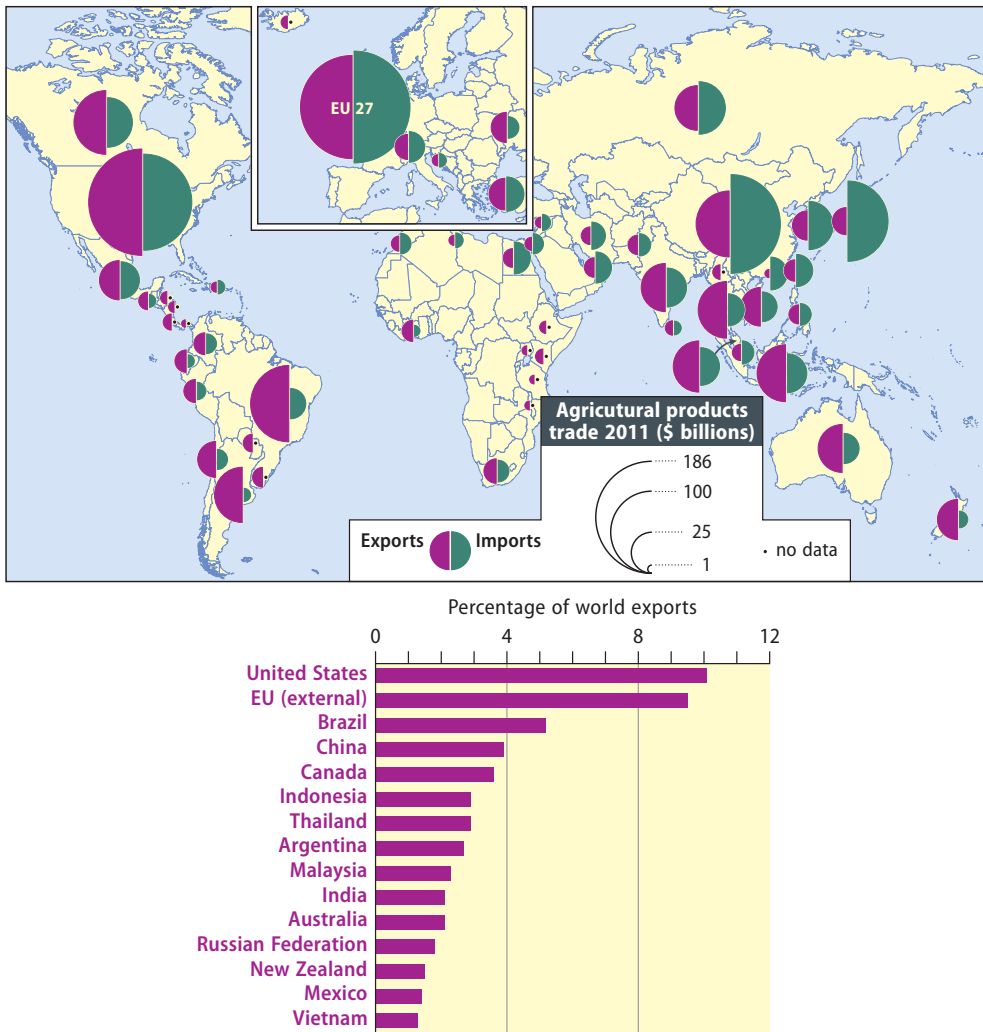


Figure 2.18 The global map of agricultural trade

Source: calculated from WTO, 2012: Tables II.16, II.17

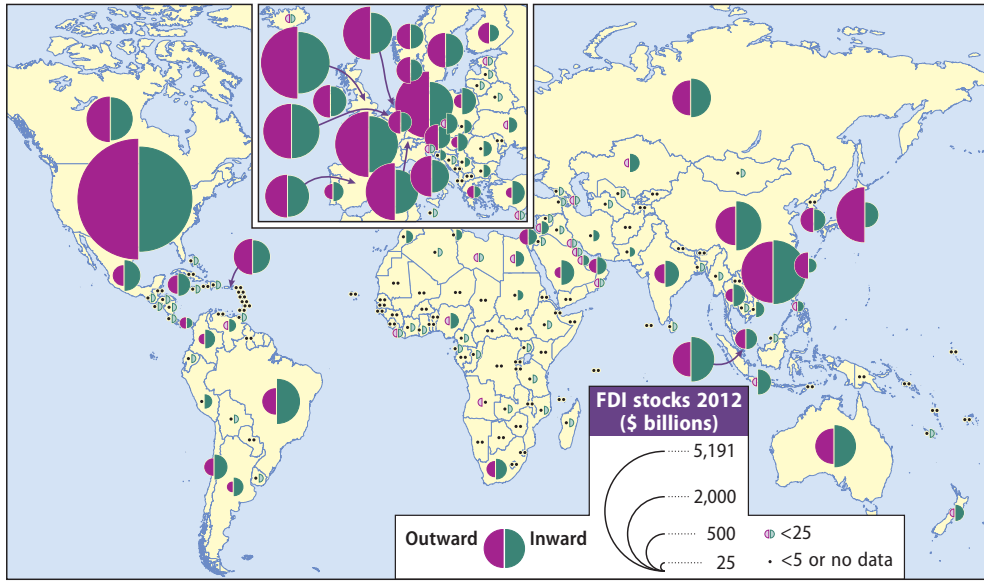


Figure 2.19 The global map of inward and outward FDI

Source: calculated from UNCTAD, 2013a: Annex Table 2

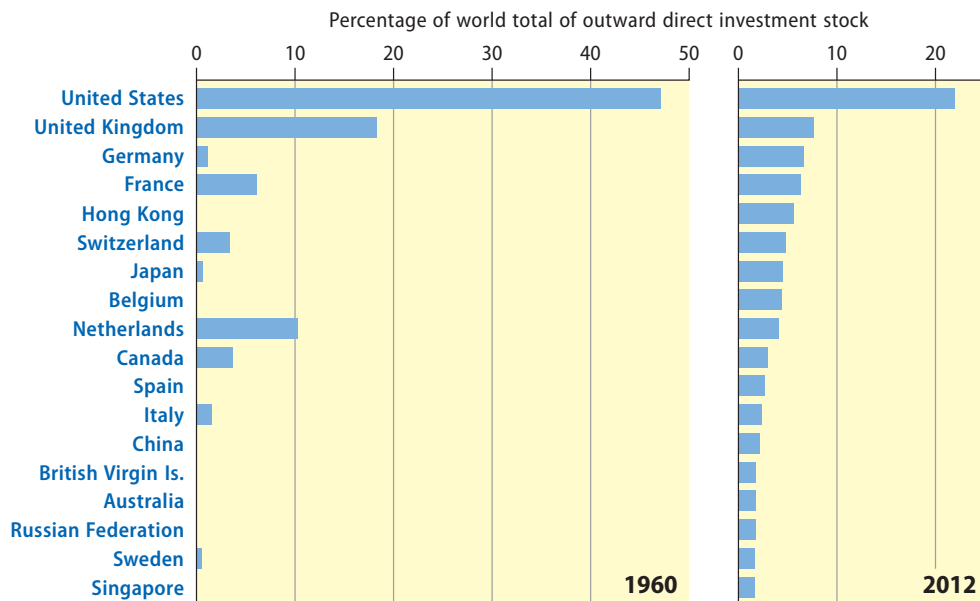


Figure 2.20 Changing shares of leading source countries in outward FDI

Source: calculated from UNCTAD, *World Investment Report*, various issues

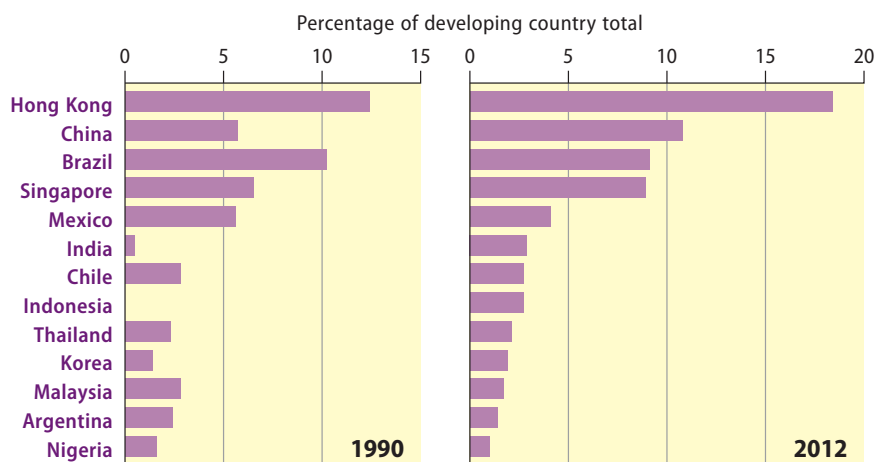


Figure 2.21 Concentration of inward FDI in developing countries

Source: calculated from UNCTAD, *World Investment Report*, various issues

NOTES

- 1 The acronym BRIC (Brazil, Russia, India, China) was introduced in 2001 by the chief economist of the US investment bank Goldman Sachs, Jim O'Neill. He also coined the acronym MIST (Mexico, Indonesia, South Korea, Turkey) in 2011. CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, South Africa) was introduced by the Economist Intelligence Unit in 2009. MINT is a slight variant on MIST, Nigeria replacing South Korea.
- 2 Wallerstein (1979).
- 3 Kozul-Wright (1995: 137).
- 4 See Bayly (2004), O'Rourke and Williamson (1999).
- 5 O'Rourke and Williamson (1999: 2).
- 6 League of Nations (1945).
- 7 Webber and Rigby (1996: 6).
- 8 Historical trends in FDI are discussed by Dunning and Lundan (2008) and Kozul-Wright (1995).
- 9 UNCTAD (2009: 17).
- 10 Blonigen (2006: 1).
- 11 Feenstra (1998: 34). See also Subramanian and Kessler (2013).
- 12 Subramanian and Kessler (2013: 7–8).
- 13 World Bank (2009a: 3).
- 14 In order to avoid breaking up the text, the detailed illustrations – Figures 2.13 to 2.21 – are gathered together at the end of the chapter.
- 15 *Observer* (2 February 2014).
- 16 *Financial Times* (4 September 2013).
- 17 Smith (2013).

- 18 Frank (1998) provides a long-run historical perspective.
- 19 Subramanian and Kessler (2013: 14–17).
- 20 Wolf (2008). See also Farooki and Kaplinsky (2012), Jacques (2012).
- 21 *The Economist* (20 July 2005).
- 22 Ramesh (2005).
- 23 See, for example, Saith (2008).
- 24 Phillips (2009: 231).
- 25 Gallagher et al. (2008: 1376).
- 26 World Bank, in 2013: www.worldbank.org/en/region/afr/overview.

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