

Chapter 1

Researching New Economic Configurations: Theory and Context

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In recent decades, processes of economic globalisations have stretched, modified, reconfigured and transformed the circuits of capital that bind together the evolving elements of the world economy (Murray 2006; Griffin 2003). Structures of production, distribution, consumption, investment and finance have evolved rapidly to create complex and hybrid forms of organisation to capitalise on emerging opportunities and to incorporate new players (Yeung 2002; Sassen 2002). At the same time, these new structures have been recognised as being vulnerable and fragile as is evident in the unequal power relationships within value chains (Gereffi et al. 2005), the potential for globalisation to promote labour exploitation, the pressure it puts on global resources, and the fragility of the global financial system (Helleiner 1995), that is so fundamental to its operation, that became evident with the onset of the 'credit crunch' in 2007. Understanding these new economic configurations and their geographic patterns involves a number of tasks. These include, building and developing new theoretical arguments drawing on, extending and integrating, for example, economists' thinking on endogenous growth (Romer 1994) and the socially constructed institutionalist thinking of geography's 'new regionalism' (Taylor and Plummer 2003; Plummer and Taylor 2003; McCann 2007), especially ideas on value chains and networks. This is a major task that has significant methodological as well as theoretical dimensions, especially issues of measurement, the use of qualitative data, and the analytical potential of multi-methodology research.

Globalising Worlds seeks to contribute to this project of developing new understandings by bringing together theoretically-informed empirical analyses from the Asia/Pacific region, Europe and North America to illustrate different ways in which new economic configurations have evolved in different contexts, and better to understand individual, local and regional responses to a variety of global challenges and opportunities. The collection of chapters is derived from the 2006 meeting of the International Geographical Union's Commission on *The Dynamics of Economic Spaces* held in Auckland (New Zealand). Based on their specific contributions to the conference theme, *Globalising Worlds: Geographical Perspectives on Old and New Value Chains, Commodity Chains, Supply Chains*, selected delegates were invited to write chapters for the book that were, subsequently, internationally refereed.

Globalising Worlds is not a conference proceedings. All 24 of the volume's chapters have direct and indirect linkages and move discussion on aspects of globalisation into different geographical contexts, adding nuances and synergies to the debate. The 38 authors are scholars from around the world and their contributions reflect their distinct regional perspectives on key issues. Additionally, the authors represent a broad range of disciplines including economics, geography, political science and management. The book offers a new exploration of the economic impacts of globalisation, and the distinctive contribution of human geography, and especially economic geography, to the debate in this field. It critically appraises new economic configurations from a geographical perspective, illustrates how network and value chain theories lead to a better understanding of the globalisation phenomenon and examines impacts of these transformations 'on the ground' using examples from the Asia/Pacific region, Europe and North America. It focuses on the underlying processes of globalisation within which new economic configurations will be better understood by using geographical perspectives.

Globalising Worlds is organised into seven closely related, but distinct parts. The chapters do not attempt to be comprehensive, aiming instead to provide detailed empirically-based insights into the impact of global processes on places. Six parts of the volume explore distinctive geographical aspects of globalisation processes. These processes include:

1. *cross-border business relations*, involving trust-based relationships and enforceable contracts, the operations of market makers and trade regulation and protectionism;
2. *international investment flows*, with a particular emphasis on foreign direct investment and its impact at different spatial scales, but also the impact of investment trusts as an example of international financial services;
3. *production chains* and their global configuration, explored in the context of automobile production;
4. *the dynamics and reconfiguration of enterprise clusters*, including issues of technological change;
5. *the dynamics of human capital resources*, exploring issues of labour recruitment, knowledge transfer and entrepreneurship; and
6. *issues of business vulnerability, competition and persistence*.

To round out this geographical discussion, the final part explores a number of issues in the specific context of New Zealand as it attempts to compete from the edge of the global economy. These issues include primary commodity trading, local governance in a neo-liberal environment, and the shifting environment of consumption.

The three chapters of Part 1 deal with the cross-border business relationships that are at the heart of the global economy, exploring the roles of trust-based relationships versus enforceable contracts, the role of 'market makers' who broker cluster-based production into international markets, and the impact of trade

regulation and protectionism. All three chapters demonstrate the very different consequences of large versus small firms in these transactions, reflecting the different levels of power they are able to bring to bear. *Hege Merete Knutsen* explores the consequences of trade protection for cross-border flows. She discusses how the phase-out and abolition of the Multifibre Arrangement led to new economic configurations in the textile and garment industry. She explores the extent to which new regional trade agreements serve as alternative protectionist measures imposed by the countries of the EU and the US in place of quota regulations in the textile and garment industries, and the extent to which such measures are challenged by low-cost manufacturers in Asia. This backdrop of regulation through regional trade arrangements is used to explain industrial development in countries that are latecomers to international trade in the textile and garment industries.

Sabine Dörry investigates cross border relationships between businesses, and relational governance in the international package tourist industry that links Germany and Jordan. She argues that international package tours are characterised by uncertainty about the character and quality of the product to be exchanged between in-country providers and package tour operators. To avoid opportunistic behaviour on the part of one party or the other, business relationships are framed in terms of both formal and informal arrangements, although formal contractual arrangements are unenforceable across national boundaries. The analysis in this chapter shows that a mix of trust-enhancing and controlling activities are used by German firms to shape their business relationships, to bridge the ‘formal distance’ that separates them and, at the same time, to ensure the experience of the tourist and maintain the commercial transactions between the German and Jordanian businesses involved.

In the context of the US motion picture industry and the clustering of this industry in the Los Angeles/Hollywood district of California, *Ivo Mossig* discusses the major role of ‘market makers’ in sustaining this type of clustered production through the cross-border business relationships they both foster and exploit. In terms of the links between Los Angeles/Hollywood and the German market, he discusses the consequences of a powerful global distribution system that guarantees the revenues to produce movies with above-average production budgets. While the ‘majors’ have their own internal distribution systems, smaller ‘independent’ producers must use specialist distribution companies. The international revenues generated world-wide through these market makers enable the industry to engage the most popular actors and to deploy extremely high marketing and promotional budgets. Indeed, it is argued that these cross-border connections are decisive for maintaining the motion picture cluster in Los Angeles/Hollywood.

The three chapters of Part 2 present geographical perspectives on international investment flows as they impact at the international, national and regional scales. Two chapters are concerned with foreign direct investments (FDI) while the third is concerned with real estate investment trusts. What they demonstrate very clearly is the strong geographically-differentiated patterns that investment flows are creating and reinforcing within the global economy. *Arnt Fløysand* and *Håvard*

Haarstad focus on FDI in development strategies. They argue that global flows of FDI are concentrated heavily in some parts of the world, especially the developed countries, and largely bypass others. Yet, FDI is seen as an important tool for poverty reduction in the bypassed regions. Through a case study of Norwegian investment flows, which mirror the global pattern of FDI flows, the authors demonstrate a strong tendency towards agglomeration. Their analysis indicates that market mechanisms create and reinforce this skewed distribution of FDI, and that FDI inflows to regions such as Sub-Saharan Africa do not appear to be on the horizon.

Dimitra Dimitropoulou, Simon Burke and Philip McCann analyse FDI flows at the finer, regional scale of inflows into the UK. Their investigation shows that there are clear differences in the location behaviour of different types of inward FDI, with the regions in the south and east of the UK exhibiting high proportions of investment in research and development and headquarter activities, while investment flows into manufacturing and distribution are more evident in the country's geographically more peripheral regions. In addition, however, having controlled for these various different characteristics, their results suggest that existing regional specialisation is the single most important determinant of where inward FDI will locate.

Laurence Murphy examines the genesis and development of Listed Property Trusts (LPTs) in New Zealand, paying particular attention to growth strategies, investment portfolios, issues of risk and governance, and the role of foreign (especially Australian) ownership within them. He begins by arguing that global investment in Real Estate Investment Trust (REIT) structures has risen dramatically since the 1990s. As the author discusses, the growth of securitised property markets has significant implications for the commercial property sector and transnational flows of investment.

Part 3 of the volume brings together four chapters that focus on the automobile industry and the globalising networks within which it is embedded. Three chapters explore the developments in this key and emblematic sector of global production in the empirical context of Poland, where investment and production has expanded significantly in recent years. The fourth chapter takes a very different perspective, viewing the industry from the Korean perspective of a de-territorialising automotive production cluster. *Boleslaw Domański, Robert Guzik and Krzysztof Gwosdz* discuss the new international division of labour and the changing role of the periphery through the case study of the Polish automotive industry. The authors' analysis shows that the recent expansion of Poland's automotive production and exports are built not so much on low costs, as was the case in the past, but now on high quality, reliability, adaptability, and fast response. They interpret this as created localised capabilities. It accords with a corporate strategy of complementary specialisation, in which the fundamental reorganisation of tasks and functions within a value chain provides the basis for improved efficiency. Currently, it brings complex, high-skill and capital-intensive processes to Central Europe and, potentially, engineering functions may follow.

Tomasz Majek and *Roger Hayter* critically examine the concept of the hybrid branch plant in the context of a Toyota plant in Poland. As an example of hybrid lean production, the Toyota branch plant matches the performance of its parent firm and yet its practices have been modified to reflect Polish circumstances. The authors discuss why the adaptation of lean production is not necessarily detrimental to performance, and explore the implications of this adaptation as a way of better understanding processes of industrial learning and regional competitiveness.

Johannes Winter argues that the traditional division of competencies in the automotive industry, characterised by the localisation of knowledge-intensive capacities of the value chain in core regions and labour-intensive activities in semi-peripheral regions, has lost its universal validity. Instead, a new international allocation of corporate competencies has become apparent. Now, owing to the transmission and self-acquisition of corporate competencies, semi-peripheral locations can go through different forms of upgrading. A conceptual framework for the subdivision of corporate competencies is developed in the chapter and applied in the empirical context of the regional development of the Polish automotive industry.

Jeong Hyop Lee analyses the Ulsan automobile cluster in Korea by using a multi-dimensional spatial framework. The Ulsan automobile cluster has evolved as the home town of Hyundai, and is characterised as an agglomeration of assembly lines and suppliers which is, however, threatened with the possibility of de-territorialisation of the local production system. In short, Korea is one of the countries losing the production capacity in this industry that countries like Poland are gaining. The author argues that the engineering networks, which are the source of the competitiveness of Hyundai, need to be focused in the co-called 'Auto Valley' project, recently initiated by the Ulsan government.

Part 4 of the book explores cluster developments in a globalising world from three perspectives: the definitional perspective of cluster identification; the reconfiguration of production in a cluster facing intense global competition; and the emergence of new and innovative capacities in a cluster challenged by globalisation. *Michael Carroll*, *Joseph Frizado* and *Bruce Smith* identify potential cluster areas by using local indexes of spatial autocorrelation (LISA). Because geographic proximity (co-location) is a necessary but not a sufficient condition for potential clustering activity, identifying industry location and density becomes the first phase in the development of any cluster-driven development policy. The chapter explores the benefits and limitations of the LISA approach and addresses alternative methods of creating the spatial weights matrix integral to LISA methodologies. The US greenhouse industry is used to illustrate the approach.

Michael Taylor and *John Bryson* analyse the restructuring of metal manufacturing in the West Midlands region in the UK. This region is the UK's industrial heartland, where manufacturing is more important within the economic structure than in any other region in the country. It has long been recognised as having a distinctive structure of production based on the local linkage and clustering of essentially small metal manufacturers – a 'locational integration'

that has much in common with current policy and academic debate regarding the clustering of economic activity. In recent years, however, the role of manufacturing, regionally as nationally, has been in decline in terms of both employment and gross value added. Associated with this decline has been a reconfiguring of metal manufacturing production within the West Midlands region. The chapter explores the processes of polycentric development that are reshaping this region's metal manufacturing activities.

Frank J. Calzonetti provides a very clear analysis of cluster dynamics in the face of global economic pressures related to an element of the automotive industry in northwest Ohio. The analysis of this chapter shows how Toledo is developing an emerging cluster in thin-film photovoltaics that has its roots in the antecedent 'glass cluster' of this part of northwest Ohio. After a long gestation period, the alternative energy cluster is now a 'visible' but still small contributor to the region's economy. The chapter draws together the evidence of progress towards the creation of a new technology cluster in alternative energy that is indebted to an earlier cluster in glass manufacturing and innovation, showing that Toledo may be completing a circle of development that started in the first half of the twentieth century with national leadership in the technology of glass, followed by a period of decline, and then the rebirth in a new industry that benefited from the knowledge and culture from the antecedent cluster.

Part 5 of the book draws together four chapters on labour, knowledge and entrepreneurship, that lie at the heart of human capital resources, and the way they are impacted locally by global pressures and processes. It explores labour market intermediation and skilled labour migration as they impact commodity chains and knowledge transfer. It also explores, through detailed case studies in Germany and the US, the relationships between banks and their business clients, and the deployment of government funds to offset the local economic stress that economic change and globalisation can create. *James W. Harrington* and *Nick Velluzzi* explore labour market intermediation (LMI) in the context of the changing world of work in the face of global economic pressures and changing patterns of production. They conceptualise LMI by applying theories of intermediation and commodity chains. Because labour market intermediaries (e.g. temporary services firms, job-placement agencies, and workforce development networks) can be based in the profit-making, government, or non-governmental organisation (NGO) sectors, the discussion uses examples and outcomes to illustrate the way in which the governance and motivation of commodity chain intermediaries affects their uncertainty reduction and risk-shifting.

Christine Tamásy discusses the relationship between globalisation and skilled labour migration processes. She cautions against simplistic interpretations based on fuzzy concepts or wobbly data and re-conceptualises skilled migration as one element of the international mobility of knowledge that is central to globalising economic strategies. It is argued that the mobility of workers enables the spread of tacit knowledge in intra- and inter-firm networks, because organisational and

relational proximity is integral to the transmission of knowledge that is difficult to communicate.

Sabine Panzer analyses the relationships between banks and businesses in Thuringia, Germany. The German banking sector has undergone remarkable spatial consolidation of its branch office networks during the last decade. For many business enterprises the distance between them and their major banks has significantly increased. However, trust-based relationships between businesses and their banks remain undiminished as banks provide important financial advice based on their knowledge of capital and financial markets. In this role, banks serve to reduce the insecurity in processes of economic exchange. The chapter explores whether trust-based relationships break down with greater spatial distances between banks and businesses, or whether the necessary social nearness can be built and sustained over greater geographical distances.

John Lombard investigates the spatial aspects of the distribution monies from the Governor's Development Opportunity Fund (GOF) of the Commonwealth of Virginia which is a cash-based discretionary economic development incentive fund controlled by the executive branch designed to act as a 'deal closer' for economic development projects. Through an analysis of the GOF across Virginia at the Census tract level, the chapter explores the extent to which Virginia communities suffering high socio-economic stress coincide with those communities receiving discretionary GOF awards. Using GIS and data for 1996 to 2003, the study shows that those communities with the highest need for economic development are not those areas benefiting from fund allocations.

In Part 6, three chapters explore issues of globalisation associated with business vulnerability, including new areas of competition, and the countervailing persistence of local business flavour. *Abd Rahim Md Nor* and *Nor Ghani Md Nor* examine the emergence of a low-cost carrier in a globalising Malaysia and its expansion in the country's aviation industry domestically and regionally. The chapter explores the factors that have led to the success the country's first low cost carrier. It examines the impact of the airline on the mobility of the people in Malaysia in particular, and in the Southeast Asian region in general. It also explores the impact of the airline on the existing national carrier, MAS (Malaysian Airline System), which operates full-service domestic and regional services.

Stig-Erik Jakobsen, *Arnt Fløysand* and *Hallgeir Gammelsæter* examine the relationship between globalisation and local flavour in business organisations by using Norwegian elite football clubs as a case study. They argue that over the last century, football has constituted itself as a global business that establishes, maintains and transforms the rules of the business across nations and boundaries. Similar to professional football in other countries, Norwegian top football has experienced increased commercialisation, characterised by a growth in turnover, development of larger and more complex organisation and a more prominent position for economical institutions and market transactions. The conventional view is that this has resulted in a de-coupling of clubs from local contexts. The chapter tests this view by analysing the spatiality of clubs focusing on, amongst

other things, their environment linkages, the inter-dependency between football clubs and their institutional contexts.

Julie Cidell identifies some of the ways in which transportation is a fundamental part of commodity chains. She does so by examining two particular natural disasters, the Great Hanjin Earthquake of 1995 and Hurricane Katrina of 2005, to see how the damage and disruptions which those events caused reverberated throughout the links of different commodity chains. The vulnerability of many of the world's transportation nodes to natural disasters means that the commodity chains of which they are a part are vulnerable along their lengths, whether or not the actual sites of production are vulnerable themselves.

Part 7 of the book comprises four chapters that analyse new economic configurations in trade-exposed New Zealand, where economic actors compete from the edge of the global economy. They explore in this context the local economic, governance and social adjustments that have accompanied neo-liberal responses and reactions to the opportunities and problems associated with globalisation. *David Hayward* shows that primary sector-based exports continue to be the mainstay of New Zealand's international trade. In public policy discourse, this is held to be undesirable and both a cause of the country's poor comparative trade performance as well as an inhibitor to its improvement. Prevailing thinking holds that international economic engagement is vitally important for economic prosperity, and especially so for a small open economy. The chapter reconsiders and reinterprets the evidence for this view based on comparative ratio measures of trade and GDP, and rejects the simplistic notion of commodities that is generally employed to support it. Instead, it is argued that attention needs to be shifted away from product types and placed on the value embodied within traded commodities without prejudice to their specific forms, which provides a different interpretation of the country's primary sector-based exports.

Steffen Wetzstein argues that in a largely market-driven governance environment and under globalising conditions, the regulation of Auckland's economy is primarily discursive rather than regulatory and interventionist. Important emerging discursive practices of governance are story-telling, benchmarking and indicatorisation, through which new actor imaginaries and capacities are constituted. These promise to be better suited to link Auckland actors and activities into globalising value chains. However, while processes and relationships of the state-regulatory apparatus are re-worked and aligned, the effects of contemporary governance on private investor behaviours are not, as yet, known. Thus, influencing Auckland's global economic participation remains a difficult political and policy task.

Richard Le Heron and *Phil McDermott* outline the emergence of the ambitious Metro Project that is focused on the economic transformation of Auckland. At the heart of the project is the question, 'how might the international competitiveness of companies, governments and individuals be fostered under neo-liberalising conditions?' It is argued in the chapter that the project must be understood on a number of levels: as the culmination of a two year process aimed at developing an action plan to ensure Auckland becomes a world-class city-region; as an extension

of a central government initiative aimed at stimulating growth and innovation; as a new generation economic partnership between local interests and central government; and, as a contest over distributional issues in the Auckland region.

Juliana Mansvelt and *Caroline Miller* explore the shifting environment of consumption in a globalising, neo-liberal environment in the context of catalogue shopping. They begin by establishing the conceptual basis for using catalogue shopping as a means of conducting a situated investigation of the times and spaces in which people shape and encounter commodities and the significance of commodities and things in the assembling of such networks. They examine the historical emergence of catalogue shopping in New Zealand and Britain, exploring changes in retailing and consumer practices. Using a case study of company 'Christmas catalogues', they explore how Christmas shopping 'at home' is a practice which shapes, and is shaped by, wider subject positions, socialities and spatialities.

The chapters of this volume combine to suggest an agenda for future research on the geographical dimensions of globalisation that is economically, socially and politically engaged. They provide examples of the depth of empirical research that is needed to come to grips with these processes. It is only on such a foundation that we can hope adequately to theorise and understand the processes of globalisation shaping the world today.

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