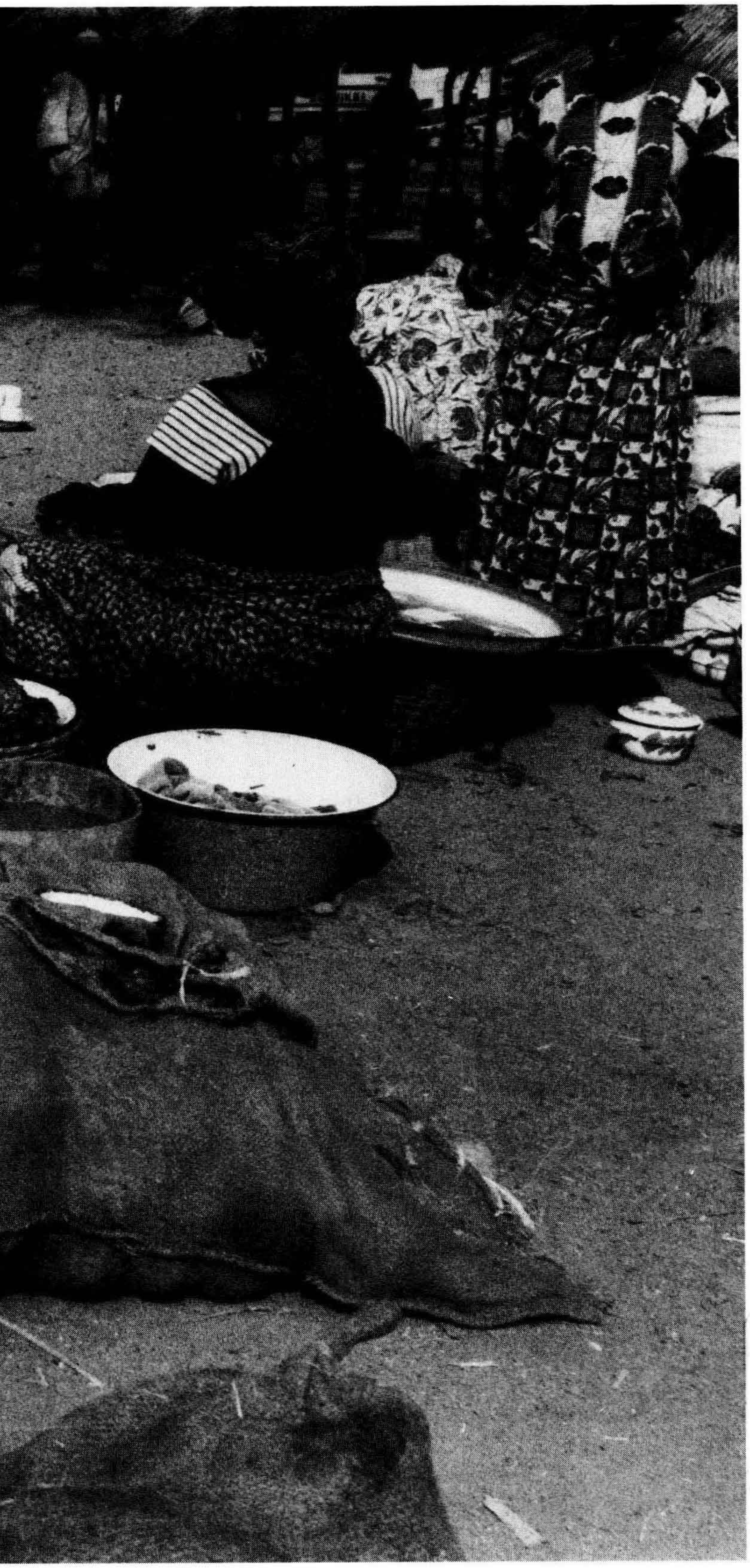
A GEOGRAPHY OF WORLD ECONOMY

Anthony R. de Souza



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Anthony R. de Souza
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For Nadia, Jason, and Sam

PREFACE

A Geography of World Economy adopts an international perspective to examine how people earn a living and how the goods and services they produce are geographically organized. It emphasizes conflicting arguments and theories essential for understanding a world economy in rapid transition. Designed around the themes of distribution and economic growth, it explores the nature of the dynamic international environment and key international issues that arouse the concern and interest of geographers. Among the issues discussed are population growth, pollution and resource depletion, food and famine, patterns of production and land use, economic justice, social and economic development, and multinational and international commerce.

Although the text progresses logically from one topic to another, the book is designed to be used in geography courses of varying lengths. I recommend that chapters be read sequentially, but because I wrote each chapter to stand alone the book can serve as a reference or refresher. Prepared as an introduction to economic geography, the material can be read and understood without college-level prerequisites.

The text offers some specific pedagogical features, including chapter objectives, key terms, end-of-chapter summaries, suggested readings, and a glossary. It also contains many photographs, a wealth of maps and diagrams, as well as vivid examples and box essays which illustrate concepts. Most of all, it encourages students to think through problems. It provides the information and concepts to help students evaluate issues without necessarily subscribing or submitting to a particular set of values.

This book is an outgrowth of *World Space Economy* by de Souza and Foust, published by Merrill in 1979. That book concentrated heavily on the United States and on the national effects of international processes. *A Geography of World Economy* takes a wider view, enabling students to appreciate what is going on not only in the United States, but elsewhere as well. An insular view of the world is untenable in the 1990s; the world is too much with us.

Among colleagues who read the manuscript and offered useful comments, I am especially grateful to Nancy Ettlinger of the Ohio State University and James E. McConnell of the State University of New York at Buffalo. I am indebted to Gregory Chu, director of the University of Minnesota Geography Department's Cartographic Laboratory, and his assistants for their efficiency and skill in designing and drafting the maps; to Alice Thiede for rendering the noncartographic art; to Joyce Green, Kim Higel, and Bill Moore for word processing; and to Ann Mirels for editing. I am also indebted to the many people at Merrill, without whom the successful completion of the book would have been impossible. My thanks go to Carol Sykes, production coordinator; Cherie Marchio, product manager; and Jim Hubbard, art coordinator. Finally, I wish to thank my wife, Nadia, for her support and immense understanding. She knows the debt I owe her.

A. R. de Souza
Bethesda, Maryland

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PROBLEMS AND SOLUTIONS IN AN UNSETTLED WORLD

OBJECTIVES

- □ To explain the context in which economic geographers perceive world events
- □ To outline the development of the crises we now face
- □ To introduce the major problems of environmental constraints and disparities in economic development
- □ To indicate why economic geographers are interested in development problems and how geography can help to resolve these problems
- □ To acquaint you with the field of geography and, in particular, with the major paradigms and concepts of economic geography

New York Stock Exchange. (Source: N.Y. Convention and Visitors Bureau.)

In his novel *Cataclysm,* former Vice President of the World Bank William Clark presented the following scenario: One day in 1987 debt-ridden Mexico proposes a global debt conference, but it is rejected by the Western industrial democracies. The rejection angers Third World countries and, as a group, they default on their debts. The Western powers retaliate by expelling the delinquent nations from the Bretton Woods Agreement. A North-South cold war develops. Cut off from the North's resources, aid, and markets, the underdeveloped South soon buckles under rampant food shortages and political chaos, but not before sending out their secret agents to infiltrate the North's major financial institutions. Once inside, the agents wreak havoc by feeding false data into the North's economic computers. Wall Street breaks down.

Clark's dramatic prediction has failed to materialize, but his novel warns that the "poverty bomb" is as capable of destroying the world as a nuclear bomb. To avert catastrophe, we must become aware of what is known as the world crisis and take it seriously. The world crisis may be conceived of as a long-term issue of human survival in terms of population, food, energy, resources, and environment. It is marked by disparities in the distribution of wealth and the quality of life that we have come to call the problem of development.

World development implies progress toward desirable goals. It is a concept full of hope and enthusiasm, even though the consequences of the jolting and dislocating process can be horrendous for people when long-standing traditions and relationships break down. The purpose of development is to improve the quality of people's lives—to provide secure jobs, adequate nutrition and health services, clean water and air, cheap transportation, and education. Whether development takes place depends on the extent to which social and economic changes and a restructuring of geographical space help or hinder in meeting the basic needs of the majority of people.

Problems associated with the uncertainty and disorder of the development process occur at all scales, ranging from a villager's access to a modern clinic to the international scale of trade relations between rich and poor countries. Attempts to understand development problems at local, regional, and international levels must consider the principles of resource use as well as the principles surrounding the exchange and movement of goods, people, and ideas. This book, written from a geographer's perspective, discusses these principles within the context of world crises.

Why is the world in crisis? What are some of the major problems that need immediate attention? Why are geographers interested in these problems? What concepts help geographers illuminate issues of resource-use inequalities and problems of poverty? How can the geographer's skills be used to help resolve these problems? This opening chapter sets out to answer these questions. Its objective is to demonstrate to you that the world is in crisis, to focus your attention on some of the specific problem areas we will deal with later on in the text, and to help you understand the geographer's approach to the study of the world economy.

A WORLD IN CRISIS—A TIME OF OPPORTUNITY

A crisis is a decisive turning point filled with uncertainty and disorder, the outcome of which may be life or death. A crisis may give rise to a new beginning if people are able to survive through a period of wrenching and rapid changes to the capitalist economic system.

Capitalism, the economic system based on profit and private property, is by nature crisis-prone. From its earliest days, it has been as critically ill as it has been intensely alive. Crises have been as prominent features of capitalist development as its incredible productivity, technical advances, and global expansion. Periods of boom characterized by increasing prices, production, technological innovation, and profits are always punctuated by crashes characterized by deflation, low growth rates, cost-reducing inventions, and declining profits. What follows the present crisis in the ongoing accumulation process of the capitalist world is still a closed book. Will this period of instability be followed by a resumption of the steady and sustained growth of the 1950s and 1960s?

The decades of the 1950s and 1960s were remarkably stable and predictable for the rich industrial countries. They were years that witnessed unparalleled prosperity and growth in the United States, the recovery of Europe from World War II, and the emergence of Japan as a tower of economic strength. They were years when developed countries commanded an increasingly disproportionate share of the fruits of the world economic system, and when multinational corporations (MNCs), or transnationals as they are sometimes called, controlled a growing share of world production and trade. Although most poor countries failed to benefit from the postwar boom, their problems were regarded as temporary aberrations to be corrected by the free-market system based on the U.S. dollar.

After 1970, however, the economic system that had served developed countries so well began to go wrong. Nothing was certain anymore. A series of unfortunate events ended the postwar boom led by the United States. In 1971, the financial order collapsed with the devaluation of the U.S. dollar. But if there was a pivotal year, it was 1973. The year that began with the American withdrawal from Vietnam ended with the quadrupling of oil prices by the Organization of Petroleum Exporting Countries (OPEC). A year later, the economies of the West slipped into a deep recession accompanied by high levels of unemployment and inflation. They recovered slightly from 1975 to 1978 before plunging into recession again in 1979 and 1980. The economies of the poor countries followed those of the West. Even the socialist countries of Eastern Europe and the USSR suffered from the general economic downturn. For a while, the oil-exporting countries escaped the storm, but they, too, revealed their vulnerability when they were hit by declining oil prices in the mid-1980s.

Framework of the World Economy

The world in crisis is a subject that requires immediate and critical attention. Only by virtually boycotting front-page news is it possible to ignore the fact that we live in an age of crisis. We read of debt, unemployment, and limited food and energy resources. We read of demographic, ecological, environmental, industrial, and of rural and urban problems. These problems are rooted in the structure and development of the world economic system, and their manifestations are aggravated by economic and political policies.

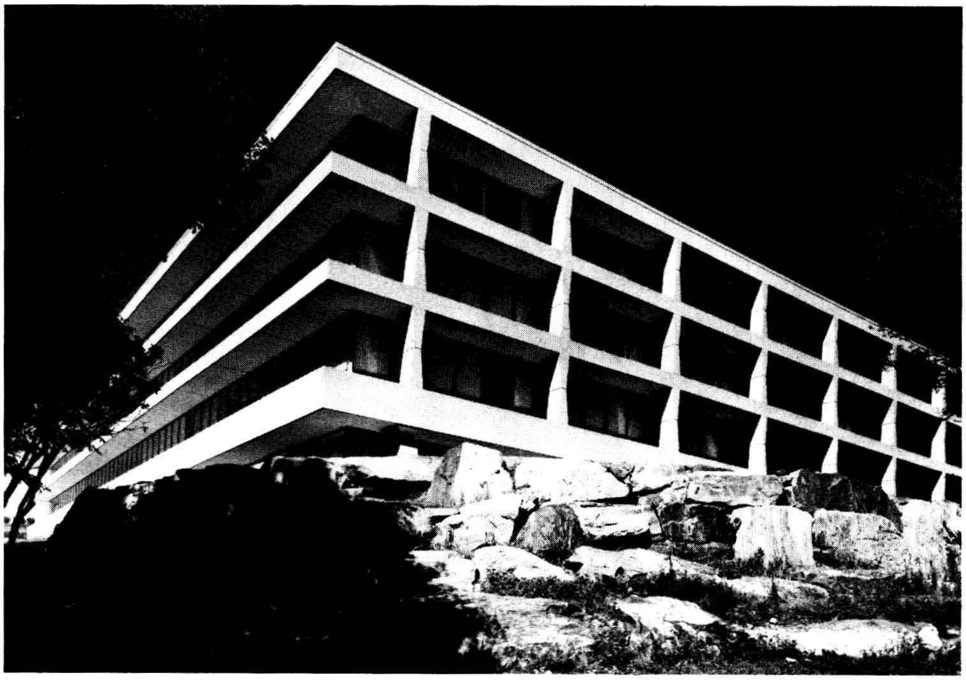
An understanding of the reasons for the new economic crisis begins by recognizing the domination of the world economy by developed countries and the existence of an international economic order established as a framework for an international economic system. The term *world economy* refers to the capitalist world economy, a multistate economic system that was created in the late fifteenth and early sixteenth centuries. As this system expanded, it took on the configuration of a core of dominant countries and a periphery of dominated countries. The dominant countries are in the industrial capitalist West, or in the First World. The dominated countries, in the capitalist underdeveloped Third World in the South, are sometimes also called "developing" or a bit more accurately "less developed countries" (LDCs). Socialist countries of the East, or countries of the Second World, have become increasingly linked to the capitalist world economy. Since 1953, East-West trade and East-South trade has increased. Beyond trade, the East-West/South international division of labor has been extended through long-term agreements for cooperative production, distribution, and finance. Perhaps the most symbolic expression of the accelerating connections between the Second World and the capitalist world economy is the branch office of Rockefeller's Chase Manhattan Bank at Number One, Karl Marx Square, Moscow.

The term *international economic system* refers to the system of geographically expanding and evolving capitalism and, in the world today, such underlying processes as the internationalization of capital. By *internationalization of capital* is meant the export of capitalist production, banking, and services through direct investment by firms that create subsidiaries abroad. Multinational corporations are the principal actors of this export.

The term *international economic order* refers to institutions such as those established after World War II to reflect the style and interests of the United States. Among these institutions are the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT). As the hegemonic power, the United States created institutions that were required to establish a liberal international economic order. Consequently, these institutions had a mandate to dismantle trade and currency restrictions of the interwar years and to facilitate capital mobility.

At any given time, the core of the world economy is dominated by one or more core states. In the postwar period preceding the 1970s, the United States was the principal power. The relative decline of U.S. power that became evident after 1973 was triggered by intense competition from rivalrous core states such as Japan and the Federal Republic of Germany. By the late 1970s, the world order created by the United States after World War II came to an end. And out of the old order, the tentative birth of a new one.

The oil shock has been blamed for the worldwide crisis and the realignment of the world order, but capitalist competition was the cause of the trouble. A major reason for the breakdown of the postwar world was a decline in the rate of profit of many firms in the industrial West. Faced with intense global competition, firms had to "automate, emigrate, or evaporate" (Magirier 1983, p. 61). Some firms did go out of business, but others responded to the challenge to automate and especially to "go international." They



IBM corporate headquarters, Armonk, New York. Whether measured in terms of value of sales, value of assets, or number of employees, IBM is one of the largest multinational corporations in the world. The domestic activities of multinationals are only a part of their worldwide activities. They are the epitome of direct investors abroad. (Source: IBM.)

became more international thanks in large measure to the speed of travel and the technology of information handling.

Among the manifestations of the nascent world order are (1) increased mobility of capital, (2) growing interpenetration of banking and industrial activities, and (3) the extension of the industrial frontier into an increasingly heterogeneous Third World. In recent years, we have seen the movement not only of labor-intensive industries (e.g., textiles and certain kinds of electronics) but also capital-intensive industries (e.g., steel and automobiles), as well as some white-collar service industries (e.g., data processing) from high-cost areas of the First World to low-cost areas of the Third World. We have seen increased mobility and rationalization of capital as evidenced by mergers, acquisitions, and the use of new technologies and labor processes. We have also seen the state become an increasingly important force in organizing world production, especially in underdeveloped countries where governments often keep wages low through repressive political policies. Governments also compete among themselves in providing attractive incentives for companies to come to their countries to produce goods and services for the world market.

The worldwide crisis has changed the daily life of people in most countries. Economic and social relations have become increasingly global. The globalization of product and financial markets has made people more dependent and more vulnerable to events that occur in far-away places. What happens in places from Bangkok to Buenos Aires may affect the salaries of municipal workers in Boston, the cost of a new home in Buffalo, or the solvency of pension funds in Bakersfield.

The new global integration has brought with it all sorts of tensions and disruptions—closed factories, empty offices, home mortgage and farm foreclosures, millions of unemployed and hungry, explosions of violence, political repression, fear. The result is a world of "international economic disorder" (Thrift 1986, p. 12). A shift to economic planning and a reform of the world economy hold out hope for alleviating the crisis, but change on this order can be slow in coming.

WORLD DEVELOPMENT PROBLEMS

We noted that a worldwide crisis followed the long postwar boom and that it was caused, like the depression of the 1930s, by economic expansion. We also noted that it is uncertain whether the world economic system will again experience the sustained growth of the 1950s and 1960s.

Two major elements in the current crisis require immediate attention. One element is the challenge to economic expansion posed by the environmental constraints of energy supplies, resources, and pollution. The other element is the enormous and explosive issue of disparities in the distribution of wealth between rich country and poor country, between city