38: 280 Economic Geography

Unit III
The (Spatial) Division of Labour

Outline

• Divisions of Labour
• “Economies” (internal and external; scale and scope, and agglomeration)
• Globalization and the Spatial Division of Labour
Divisions of Labour

3 Basic ‘Types’:
• Technical
  • Horizontal
  • Vertical
• Social
• Spatial

The Division of Labour as an Analytical Tool: The Industrial Revolution

The Division of Labour has an Economic and a Political Dimension

Fig. 2.3
“Economies”

- Efficiencies (or reductions in average costs)
- Internal Economies, External Economies
- Value chain as pursuit of “economies” via division of labour

Internal Economies: Scale and Scope

Scale:
- Total cost, average cost
- Fixed costs, variable costs, and sunk costs
- Technological advances, vertical integration
- Relation to market size
Figure 2.2  Economies of Scale for Widgets

The Minimum Efficient Scale
Internal Economies: Scale and Scope

Scope:
• Variety of outputs, horizontal integration
• “Mass Customization”

External Economies

• ‘Relationship’ factors
  • e.g. ‘make or buy’ (ie. pursued via markets - open, relational)

• Agglomeration economies
  • Localization Economies
  • Urbanization Economies
  • Communication Economies

• Local Multipliers and Regional Development
Multipliers

• Explain how a region grows
  • A result of “linkages, networks, or interdependencies”
• Enhanced by agglomeration; weakened by leakages
  • e.g. branch plant economy (truncated development)
• Growth Components:
  • Direct
  • Indirect
  • Induced

Multipliers

• A measure of the total impact resulting from an initial ‘direct’ impact.

\[ E = \frac{1}{(1-k)} B \]

  The economic base multiplier

• ‘E’ = total employment
• ‘B’ = employment in ‘basic’ industries
• ‘k’ = proportion of employment in ‘non-basic’ industries
Economic Base Multipliers

- Basic vs non-basic activity
- Multipliers vary by sector, and geographically
  - e.g. cities and the ‘economic base’ multiplier

<table>
<thead>
<tr>
<th>City</th>
<th>Basic: Non-Basic Ratio</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>100:225</td>
<td>3.25</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>100:175</td>
<td>2.75</td>
</tr>
<tr>
<td>Tallahassee (FL)</td>
<td>100:90</td>
<td>1.90</td>
</tr>
<tr>
<td>Sullivan (WS)</td>
<td>100:35</td>
<td>1.35</td>
</tr>
</tbody>
</table>

“Economies”

- … also “diseconomies” of Scale and Scope (internal), and “negative externalities” (external)
- Are (External) Economies of Scale and Scope “immobile”?
  - locational inertia
“Diseconomies”

- Can be ‘scale’ or ‘scope’
- Can be external (e.g. result of negative externalities) or internal (e.g. growth beyond efficient scale)
- Relation to division of labour:
  - Overspecialization
  - Bureaucratization
  - Geographical problems of MNCs
- Firm level diseconomies can invoke localization diseconomies
- Urbanization diseconomies

Globalization and the Spatial Division of Labour

- Globalization is about the reworking of the divisions of labour, at the global level
- 4 ‘Stages’ in the international division of labour:
  1. The Old International Division of Labour I: The Imperial or Mercantilist Phase
  2. The Old International Division of Labour II: The Industrialisation Phase, and the Colonial Division of Labour
  3. The New International Division of Labour (NIDL)
  4. The ‘Newer’ International Division(s) of Labour (or ‘Global’ Division of Labour)
The New International Division of Labour

- NIDL is about “the drift of work from the core to the periphery”
  - deindustrialisation
  - fragmentation of production
  - TNCs developing a ‘global manufacturing system’
- 3 main reasons:
  1. improvements in transportation technology
  2. extension of the technical division of labour (Taylorism) (ie. processing technology)
  3. supply of cheap labour in the periphery
- Disjuncture between economy and the state

![Figure 2: Share of manufacturing in total employment, G7 countries, 1970-2003, in %](image)

Source: OECD, STAN Indicators database, December 2005.
The New International Division of Labour

Criticisms of NIDL:
• overemphasizes ‘cheap labour’
  • e.g. EPZs and the role of the state
• not all losses in AICs due to NIDL
• not all industrialisation in the periphery due to NIDL

Export Processing Zones (EPZs)

AKA Free Trade Zones (FTZs)
The Case of BEPZA - Bangladesh Export Processing Zone Authority
Operates 8 (9th proposed) EPZs in Bangladesh
Export Processing Zones (EPZs) - BEPZA

Objectives:
- Promotion of Foreign (FDI) and Local Investment
- Promotion of Export
- Diversification of Export
- Development of Backward and Forward Linkages
- Poverty Alleviation through Employment Generation
- Transfer of Technology
- Development of Management
- Promotion of International Marketing, Skill Access

Export Processing Zones (EPZs) - BEPZA

Value:
- Value of exports from Bangladesh EPZs has grown from $228M (US) in 1994-95 to $1.549B (US) in 2004-05

Products:
- 1. Garments
- 2. Textile
- 3. Terry Towel
- 4. Knit and Other Textile
- 5. Garments Accessories
- 6. Caps
- 7. Tent
- 8. Electronics
- 9. Footwear and Leather
- 10. Metal Product
- 11. Plastic Goods
- 12. Paper Product
- 13. Fishing and Golf
- 14. Rope
- 15. Service Industries
- 16. Agricultural Products
- 17. Miscellaneous

Total: 233 firms, 163,322 jobs
Export Processing Zones (EPZs) - BEPZA

Example Firms:
- NIKE, Reebok, Gap, JC Penny, Walmart, Kmart, Wrangler, Dockers, NBA, Tommy Hilfiger, Adidas, Eddie Bauer, American Eagle, Raleigh, Brooks, Hi-Tech (footwear), LL Bean, Disney, Sony, Nissan, Konica-Minolta, Abu Garcia

The Newer International / Global Division of Labour

Really divisions. Since the 1980s, at least 6 (overlapping) processes can be identified:
1. AIC firms exploit LDCs via inter-firm relationships
2. Flows cover services as well as goods
3. Hosts to FDI now becoming sources
4. Outward FDI from AICs to other AICs
5. Outward FDI from AICs moving further ‘down’ the hierarchy of LDCs
6. Reversal of NIDL
The Newer International / Global Division of Labour

Shift to Services:
1) overall structural shift in AIC economies
2) technological change vs traditional ‘non-tradeability’ of services
3) liberalisation of services trade rules

The Newer International / Global Division of Labour

- Driven by rapid increases in the volume of trade, growth and change in nature of FDI, and (increasingly) international labour movement
- Supported by new institutions and changing roles of government
Foreign Direct Investment (FDI)

Explanations of FDI location fall into 3 main categories:
1) to serve local (foreign) markets
   aka horizontal FDI, and note role of market size
   (esp. in AIC-AIC FDI)
2) to relocate part of the production process
   aka vertical FDI
3) spread risk
   • FDI can be ‘greenfield’ or M&A

Empirical Trends in FDI

• rapid acceleration over last 20 years
• …but peaked in mid-2000s
• unevenness geographically:
  • long history across AICs, but changing quality
    • horizontal and vertical (e.g. US in Ireland)
  • more recent growth of involvement of LDCs
    • greater impact than AICs
    • spatially concentrated (e.g. first SE Asia, now Latin America)
    • outflows growing faster than inflows
**Figure 2.11** Growth of foreign direct investment compared with trade and production, 1975–94

*Source:* Based on material supplied by UNCTAD
Empirical Trends in FDI

- FDI has recovered more quickly in LDCs than AICs most recently
- Intra-LDC flows growing more quickly than AIC-LDC flows (2005: 57 of Fortune 500, 1990: 19)
- Supported by regulatory change: 220 of 244 changes in laws/regulations in 2003
- Greenfield FDI dominates in LDCs, while M&A dominates in AICs
- Sectorally, biggest TNCs are in oil & gas and motor vehicles, and telecommunications
- Flows in some LDCs (like many in Africa) are dominated by the resource sector – Old IDL?
Globalization and (N)IDLs a Function of Trade

Some “Basics” of International Trade:

• ‘Free Trade’? ‘Freer Trade’? or ‘Deregulated International Commerce’?

• 3 Inherent Costs to Cross-Border Commerce (exchange over distance):
  • transport
  • time
  • cultural/psychological/cognitive distance

• …plus regulatory barriers to trade

Globalization and (N)IDLs a Function of Trade

Comparative advantage:

• Specialization based on relative efficiencies
• Gains from trade exceed opportunity costs
Trade results in regional specialization

Basics of International Trade

Trade and Protectionism

- Trade is Positive because (neo-liberal):
  - keener competition -> innovation, productivity, prices
  - specialization -> efficiency, productivity
  - increasing scale -> productivity, prices

- Negative Consequences of Freer Trade:
  - loss of (economic) independence
  - costs not accounted for
  - trade in similar goods (decreased efficiency?)
  - ‘identity’ consequences, national security, etc.
Globalization and (N)IDLs a Function of Trade

- International trade a function of differences in culture, tastes, etc., as well as regulations
  - Tariff and non-tariff barriers to trade
- Neoliberal view: unrestricted operation of free markets
- So why protectionism? (a few arguments)
  - Infant industries
  - National security
  - Employment (jobs and wages)
  - Cultural Protectionism
  - Balancing the Balance of Trade
  - Anti-Dumping
Empirical Trends in Trade

- (World) Trade Growing Faster than (World) Total Economic Output
- China and the WTO
- Top Exporters and Importers, 2013
- Importance of Intra-Firm Trade (in some cases); Global Value Chains (TNCs)

Chart 2
Growth in the volume of world merchandise trade and GDP, 1997-2007
(A annual percentage change)
Figure 1.1: Growth in volume of world merchandise trade and GDP, 2005-12
(annual percentage change)

Source: WTO Secretariat.

Chart 1: Ratio of world merchandise trade volume growth to world real GDP growth, 1981-2016
(\% change and ratio)

Sources: WTO Secretariat for trade, consensus estimates for GDP.
Chart 3
Real merchandise trade growth by region, 2007
(Annual percentage change)

- South and Central America
- Commonwealth of Independent States
- Africa & Middle East
- Asia
- Europe
- North America

Chart 3: China (August)

- Exports (solid line)
- Imports (dashed line)

Year: 2012 to 2016
### World’s Top Merchandise Traders, 2016

<table>
<thead>
<tr>
<th>TOP EXPORTERS</th>
<th>TOP IMPORTERS</th>
</tr>
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<tr>
<td>1. China</td>
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</tr>
<tr>
<td>2. United States</td>
<td>2. China</td>
</tr>
<tr>
<td>3. Germany</td>
<td>3. Germany</td>
</tr>
<tr>
<td>4. Japan</td>
<td>4. United Kingdom</td>
</tr>
<tr>
<td>5. Netherlands</td>
<td>5. Japan</td>
</tr>
<tr>
<td>6. France</td>
<td>6. France</td>
</tr>
<tr>
<td>7. Republic of Korea</td>
<td>7. Netherlands</td>
</tr>
<tr>
<td>8. Italy</td>
<td>8. Canada</td>
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### World’s Top Services Traders, 2016

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<td>8. India</td>
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Trade and Global Value Chains

The World Trade Organization

- Most Favoured Nation (MFN) Status, i.e. non-discrimination
- Started as GATT in 1948 (23 members)
- 9 ‘Rounds’ of Trade Talks
  - shifting focus
- Uruguay Round and WTO
  - more teeth
- Doha Round
  - ‘the development round’
  - agriculture
  - the ‘Singapore issues’
- Do WTO members trade more freely?
### Round and round

#### A GATT/WTO chronology

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Birth of the GATT, signed by 23 countries on October 30th at the Palais des Nations in Geneva.</td>
</tr>
<tr>
<td>1948</td>
<td>The GATT comes into force. First meeting of its members in Havana, Cuba.</td>
</tr>
<tr>
<td>1949</td>
<td>Second round of talks at Annecy, France. Some 5,000 tariff cuts agreed to; ten new countries admitted.</td>
</tr>
<tr>
<td>1950-51</td>
<td>Third round at Torquay, England. Members exchange 8,700 trade concessions and welcome four new countries.</td>
</tr>
<tr>
<td>1956</td>
<td>Fourth round at Geneva. Tariff cuts worth $1.3 trillion at today's prices.</td>
</tr>
<tr>
<td>1960-62</td>
<td>The Dillon round, named after US Under-Secretary of State Douglas Dillon, who proposed the talks. A further 4,400 tariff cuts.</td>
</tr>
<tr>
<td>1973-79</td>
<td>The Tokyo round, involving 99 countries. First serious discussion of non-tariff trade barriers, such as subsidies and licensing requirements. Average tariff on manufactured goods in the nine biggest markets cut from 7% to 4.7%.</td>
</tr>
<tr>
<td>1986-93</td>
<td>The Uruguay round. Further cuts in industrial tariffs, export subsidies, licensing and customs valuation. First agreements on trade in services and intellectual property.</td>
</tr>
<tr>
<td>1995</td>
<td>Formation of World Trade Organisation with power to settle disputes between members.</td>
</tr>
<tr>
<td>1997</td>
<td>Agreements concluded on telecommunications services, information technology and financial services.</td>
</tr>
<tr>
<td>1998</td>
<td>Today the WTO has 132 members. More than 30 others are waiting to join.</td>
</tr>
</tbody>
</table>

### Trend in the Number of RTAs (WTO members)

![Graph showing the trend in the number of RTAs (WTO members)](image_url)
Geographical Distribution of RTAs, both in force and under negotiation, 2000

**Figure A.2: Trade openness versus inequality (2000 to 2010)**

- High income
- Upper-middle income
- Lower-middle income
- Low income
Figure D.3: Trade openness and unemployment (1995 to 2008)