systems, their inclusions. For approach in and contrasted, logical lenses and development answers the questions on its role of cultures and
government of resources, inputs, and services today, its core theme of this today is the s. Capitalism and sixteenth century came into world.
Introduction introduction in buyers and on the basis of it economies as a firm represents how capitalism operates, how profitable it is, demand for goods, interests, althow and or and techniques of production, the most production and where
of decision by business refer to the resource of the production of goods, resource to produce if buyers and led together and resource olds and re or goods and services (between product markets and households) (Figure 2), and sales revenues and profits (between product markets and businesses).

By adding the value of all the goods and services produced in a given country in one year, we can estimate its gross domestic product (GDP). (A similar measure, gross national product, GNP, includes the value of the activities of domestic companies in countries outside their borders.) Dividing each country’s GDP by its population yields per capita GDP, a frequently used yardstick of quality of life (Figure 3). It is important to remember that maps and tables of abstract numbers reflect real-world conditions in which people live, work (Figure 4), find meaning and happiness, often suffer, and die. The United States, with a GDP of roughly $14 trillion, is the world’s largest economy (Figure 5), followed by China and Japan. As economies grow and decline, the relative sizes of their GDPs change over time. However, although it has waxed and waned

FIGURE 1 Circular flows in the capitalist economy. The circular flow in the capitalist economy involves a resource market where households supply resources to businesses and where businesses provide money income to households. It also consists of the product market where businesses manufacture and produce goods and services for households, while households provide money revenue from their wages and income to consume such goods and services. In the resource market, shown in the upper half of the diagram, households are on the demand side and businesses are on the supply side. The bottom half of the diagram shows the product market: households are on the demand side and businesses are on the supply side.

FIGURE 2 Systems of advanced commodity production offer consumers an enormous variety of goods and services from which to choose. However, sales in America are weak, with the economic slowdown. Millions of workers are unemployed, and others have cut spending in order to reduce consumer debt, further slowing the economy. The result has been a persistent combination of weak demand and slowing supply.
over time, the share of total world output produced by the United States, which has about 5% of the world's people, today stands at roughly 25% (Figure 6).

The popular understanding of capitalism holds that it consists just of markets. A commonly held view of capitalism is that it is synonymous with free markets and minimal governmental intervention, a system sometimes called laissez-faire. However, historically, truly free markets (with zero government rules) have never really existed; since there has been capitalism there has been a government of some form or another to shape markets. Governments have always been central to creating infrastructure, protecting property rights, providing public services such as education, and shielding producers from foreign competition, including immigrant labor. Indeed, the argument can be made that markets could not exist without some state role. This means that the various forms of capitalism are mixed systems in which both markets and government play large roles in the economy.

**FIGURE 4** Egyptian farmer tilling the soil. This field is being prepared for growing cotton, to meet a worldwide demand for cotton clothing. In the future, the poorer countries of the world will have to rely on agriculture to raise their standards of living and to supply the capital they need to create industries. Agricultural production, therefore, must be increased. Some developing countries, such as Egypt, grow a disproportionate amount of nonfood crops for the export revenue it generates.

**FIGURE 5** Major world GDPs in 2010. The United States, which generated roughly $14 trillion in output in 2010, is by far the world's largest economy and exerts a disproportionate influence over the rest of the world. China, the world's second largest, is rapidly growing, however. Japan and several European states form an important third tier.
and governments are important decision makers, including in such vital domains as transportation, education, and health care. The balance of power between markets and governments varies widely among countries and over time, and gives rise to many national forms of capitalism, ranging from those with high levels of government intervention, such as in Scandinavia, to those with relatively little, such as in the United States.

**ECONOMIC GEOGRAPHY OF THE WORLD ECONOMY**

The focus of this text is the world economy, the networks, processes, and institutions that shape the planetary system of resource distribution, create wealth and poverty in different parts of the globe, and contribute to the rise and fall of different national powers. The global scale is only one way in which economic geography can be studied, but given the massive processes of globalization that have been at work, particularly over the last 30 years, it is highly appropriate for understanding what goes on around the world around you. The world economy links far-flung people and places so that what happens in one place shapes what happens in another through networks of interdependence. For example, it is highly probable that the clothes you are wearing now were made in a developing country such as China; that the gas you put in your car came from a foreign source such as Nigeria; that your cell phone or television was made in Southeast Asia; and that financial decisions being made in London or New York City shape your access to credit and the interest rates you pay for loans, mortgages, and credit cards. Every trip to the grocery store is a window on the global economy and an act of participation in it. Seen in this light, the global economy and everyday life are two sides of the same coin.

The world economy is constantly being transformed by a combination of technological and geopolitical forces, which in turn generate a globalization of culture, of the economy, and of environmental issues. Around the world, countries have witnessed the steady growth of large private corporations, the rising role of markets and a diminished role for the state, and lower barriers to trade. Technological changes—improvements in transportation and communications—are reducing the friction of distance and barriers to worldwide exchange. The principal instruments of the globalization of culture are worldwide television, music, and consumption patterns. The principal instruments of globalization of the economy are TNCs, which are producing new efficiencies and new geographies in production, distribution, and the use of the world’s resources. The collapse of communism around the world in the 1990s, the implementation of trade alliances such as NAFTA and the European Union, the explosion of banking and finance via telecommunications systems, the rising power of corporations domestically and internationally, and the worldwide reduction of government roles via privatization and deregulation all marked a new round of globalization by removing many institutional barriers to investment and trade. This increased pace of globalization has enormous implications for countries, states, and regions.

Changes in the world economy are simultaneously cultural, technological, political, and environmental. Reductions in transportation costs, for example, have improved exchanges of people and goods. Advancements in telecommunications, including fiber-optic networks and the Internet, have rapidly increased the ease, speed, quantity, and quality of information transactions. Worldwide political-economic changes, ranging from the collapse of communism to widespread deregulation to the declining power of the United States internationally, have diminished the role of the state and increased the power of corporations, often with dire consequences for the poor and powerless. Rising populations in the developing world, and stagnant demographic growth in the developed world, have altered the global supply, demand, and cost of labor, shaping migration patterns. Globalization has accelerated international economic, political, and cultural ties, ranging from corporate investment to trade, to tourism, to terrorism, to the spread of disease. And cultural changes, including the
commodification and Westernization of the world's many cultures, simultaneous secularization and growing religious fundamentalism in different places, and mounting awareness of international issues, have played a role in reshaping local and global social movements, consumption, and civil society.

Because transportation and communication costs have fallen rapidly, many local services and goods are becoming available internationally. Worldwide communication systems now allow for companies to subcontract their production and financial operations across continents, wherever prices are the cheapest and quality is the best. The global economy today is spectacularly information-intensive and relies heavily on digital technologies, corporate consultancies, cable television, Internet information services, and software systems design, programming, and application. International finance has also become both global and computerized, and capital markets are now highly mobile for all forms of marketable equities and securities, stocks, bonds, and currency transactions. The globalization of finance has been accelerated by financial deregulation—the removal of state controls over interest rates, tariffs, barriers to banking, and other financial services.

The world is full of problems—debt, unemployment, poverty, inadequate access to health care, food shortages, and environmental degradation—that have serious consequences for the lives of everyone on the planet, including you. Such problems are rooted in the structure and development of the world economic system. Understanding the reasons for such problems begins by recognizing the long domination of the world system by developed countries and the existence of an international economic order established as a framework for an international economic system.

The international economic system, or world economy, includes the institutions and relations of global capitalism, such as global flows of capital (investment), goods (international trade), information, technology, and labor. Because international markets and flows of resources, capital, labor, and products are always shaped by politically sovereign states, the international economic system is also a political system.

The capitalist world economy is a multistate economic system that began in Western Europe in the early sixteenth century and grew over the next 400 years. As this system expanded, it developed into a configuration of a core of wealthy countries dominating a periphery of other countries. One common division of countries is into First, Second, and Third Worlds, a categorization that was a product of the politics of the Cold War. The First World includes the economically developed countries of Europe, the United States, and Canada, Australia, New Zealand, and Japan (Figure 7). The defining feature of these countries, which comprise about one-quarter of humanity, is their relatively high standard of living, characterized by a large middle class. The Second World was represented by the Soviet Union and Eastern Europe, a designation that lost its meaning in the post–Cold War era (the 1990s and since), when the Second World disappeared, to be divided between the First and Third. Important to understanding this division are differential rates of economic growth, which vary over time and space. Generally, the world's economies (Figure 8), then does likely to wealth is region; group does population stand other differences.

The underdeveloped countries. The Middle East, a great representatives of Third World standards. Whether country lower than Fourth country.

At by one era of by the economic every British
nomics collectively grow between 3% and 5% annually (Figure 8). When a country's economy grows more rapidly than does its population, the average standard of living is likely to rise, although this depends heavily on how wealth is distributed by class, ethnicity, gender, and region; growth in which new wealth is accumulated at the top does little for the bulk of people. Conversely, when population growth exceeds that of the economy, the average standard of living is likely to decline, although there are other drivers of falling social mobility such as economic crises.

The poorest and generally weakest countries are in the underdeveloped Third World, sometimes also called developing or, a bit more accurately, less developed countries. The Third World consists of Latin America, Africa, the Middle East, and Asia, a broad set of diverse societies with a great range of cultures, historical backgrounds, and standards of living. A few countries have climbed out of the Third World, such as Singapore and South Korea, to enjoy standards of living that rival those in the First World. Whether Russia should be considered a First or Third World country is open to debate; its GNP per capita, after all, is lower than that of Mexico. Some observers even identify a Fourth World as a subset of the Third World, the poorest countries on earth (located mostly in sub-Saharan Africa).

At any given time, the world economy is dominated by one or more core states. In the nineteenth century, the era of the Pax Britannica, or period of peace dominated by the British Empire, Britain was the world's only economic and political superpower. The British navy ruled every ocean in the world, and the sun never set on the British Empire. By 1900, however, the United States overtook Britain as the world's largest national economy, and after World War II the United States displaced Britain as the world's leading superpower, a status it still enjoys today, even if its dominance is gradually eroding in the face of mounting competition. The United States is still unquestionably the largest economy in the world, although its standard of living is not the highest (falling below several countries in northern Europe). It used its wealth and power to mold the international economy to reflect its interests and those of its allies, setting up, for example, the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). As the hegemonic power in the world, the United States created institutions that were required to establish international economic order in tune with its ideals of free trade and investment (although critics allege that "free trade" is a smokescreen for powerful countries to economically invade less powerful ones).

By the 1970s, the relative power of the United States began to decline in the face of intense competition from rival core states such as Japan and Germany. By the late 1970s, the world order created by the United States after World War II began to come to an end. One major factor in generating this change was the Organization of the Petroleum Exporting Countries (OPEC)-induced petroleum crises of 1973 and 1979, which dramatically increased the price of a critical input into industrialized economies and plunged them into recession. The "petro-shocks" dealt a significant blow to the world economy, driving up heating and transportation costs, exacerbating unemployment, accelerating deindustrialization, and curtailing many people's standards of living, essentially ending the post-WWII

![World Economic Growth 1988-2008](image_url)

**Figure 8** Average annual world economic growth rates vary as business cycles create boom and bust periods, but average between 3% and 5% annually. Fluctuations in average growth reflect international recessions, the price of oil, productivity growth (including the impacts of new technologies), catastrophic events such as the Indian Ocean tsunami, changes in government policies, and political turmoil or the lack thereof.

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economic boom. 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 restructure themselves and make organizational and technological changes as well as relocate parts of their operations to the developing world. Some firms went out of business, but others responded to the challenge to automate and to "go international," something they could do in part due to the rising speed of travel and new, digital information technologies.

Out of the old order came the birth of a new one in the 1980s and 1990s. This new world system, in which the Soviet bloc disappeared, left the United States as the world's only superpower. However, U.S. economic hegemony has been increasingly challenged by the rise of the newly industrializing countries (NICs), particularly those in East Asia and especially China. This global order is characterized by highly developed international markets dominated by TNCs, many of which have larger gross output than some countries (Figure 9). States and national governments also play in the global system, managing trade through protectionism, limiting movements of labor, or by reducing trade barriers (e.g., through the World Trade Organization). Like most economies around the world, the American economy has become progressively more globalized, partly as a result of the influx of foreign investment from a variety of nations, mostly in Europe, and from Canada, China, and Japan. Simultaneously, the microelectronics revolution unleashed an enormous wave of change that dramatically affected all domains of production and consumption, particularly in telecommunications and finance, accelerating the globalization of services as well as manufacturing.

GLOBALIZATION

Globalization refers to a complex set of worldwide processes that make the world economy and the various societies that comprise it more integrated and more interdependent. Globalization is essentially an expansion in the scope, scale, and velocity of international transactions. It is a useful way to explain the movements of capital, people, goods, and ideas within and among various regions of the world and their cultural, political, and environmental systems. Among other things, globalization is a process that shrinks the world by reducing transport and communication times and costs among different places. This process has exposed different people in the world to an increasingly homogeneous global culture (largely American in origin), a global market in which more goods and services are freely available everywhere than ever before, and global environmental changes on a scale never before seen.

Globalization should not be simply seen as inherently beneficial or inherently negative in character. Rather, it is a mixture of both sets of qualities that varies widely by place. In some regions, social, political, and economic problems have resulted from a tension between the processes promoting global culture, economy, and environment on the one hand, and the practice and preservation of local economic isolation, cultural tradition, and the localization of environmental problems on the other hand.

We now take a brief look at some of the most important dimensions of globalization that are occurring at an ever-increasing rate in the world today: globalization of culture and consumption, telecommunication, and economic activity, including TNCs, foreign investment, work, services, and information technology.

![FIGURE 9 Many transnational corporations (TNCs) are larger than some national economies. The relative size of a TNC is important to small countries whose economies are often drastically affected by decisions a global corporation makes. Wal-Mart seems to be a microcosm of the U.S. economy in that shoppers are focusing on savings in this age of austerity. With high gas prices and unemployment rates in America, Wal-Mart's sales are booming.](image-url)
FIGURE 10 The cycle of poverty in Third World countries. Most Third World nations have low per capita income, which leads to a low level of saving and a low level of demand for consumer goods. This makes it very difficult for these nations to invest and save. Low levels of investment in physical and human capital result in low productivity for the country as a whole, which leads to underemployment and low per capita income. In addition, many of these countries are faced with rapid population growth, which contributes to low per capita incomes by increasing demand without increasing supply or output. Yet, the number of people going hungry in the world, as of 2011, has been dropping since 2007, partly due to a recession-fueled drop in world food prices.

the United States and some European nations in jeopardy. Many U.S. banks, including some of the largest, would technically have been insolvent if their loans to developing nations had been declared in default. This led to enormous pressure to resolve the immediate problems of the debt crisis, many of which were directly related to the poor performance of the economies of the debtor nations.

Unfortunately, for many debtors, the solution often proved to be more painful than the problem itself. Under strict rules imposed by the IMF and other international agencies, which believed in market fundamentalism (the narrow notion that only free markets can alleviate social problems), stringent limits were placed on the economic policies of debtors, with the result that a majority of citizens in these nations often found themselves worse off. The goals of IMF conditionality, as it came to be called, were to restore growth, reduce central government involvement in the economy, and expand the exports of goods and services while reducing imports so that the debtors would have sufficient earnings of foreign revenue to make payment on the interest and principal of their debt.

There is little evidence that these policies helped to restore economic growth, and they even lowered many people’s quality of life, as the former chief economist of the World Bank, George Stiglitz (2002), noted, by forcing drastic cutbacks in necessary government services and forcing currency devaluations that drove up the cost of imports. However, such changes did result in export surpluses that made debt servicing easier. As a consequence, the 1990s saw a remarkable reversal in the flow of financial resources—instead of the flow from rich nations to poor nations to assist in development efforts, there was a flow from poor to rich. But debt repayments have become a serious obstacle to further economic development in poor countries where capital and financial resources are scarce and every dollar lost has repercussions throughout the economy.

Summary and Plan

This text explores the economic geography of capitalism, especially on a global scale. Although it is important to understand the local and national levels of economic activity, the rapid growth of the world economy has increasingly focused attention on processes, problems, and policies at the international scale. In this chapter, we present the geographer’s perspective. We provide a definition of the field and introduce the main concepts geographers use to interpret and explain world development problems at a variety of scales, ranging from small areas and regions to big chunks of the world.