7.1 Holding the World Together

If you are reading this while fully clothed, the odds are that crucial parts of your outfit—specifically, the parts that protect you from a wardrobe malfunction—came from the Chinese town of Qiaotou, which produces 60 percent of the world’s buttons and a large proportion of its zippers.

The Qiaotou fastener industry fits the classic pattern of geographical concentration driven by external economies of scale. The industry’s origins lie in historical accident: In 1980, three brothers spotted some discarded buttons in the street, retrieved and sold them, then realized there was money to be made in the button business. There clearly aren’t strong internal economies of scale: The town’s button and zipper production is carried out by hundreds of small, family-owned firms. Yet there are clearly advantages to each of these small producers in operating in close proximity to the others.

Qiaotou isn’t unique. As a fascinating article on the town’s industry[[1]](#footnote-1) put it, in China, “many small towns, not even worthy of a speck on most maps, have also become world-beaters by focusing on labour-intensive niches. . . . Start at the toothbrush town of Hang Ji, pass the tie mecca of Sheng Zhou, head east to the home of cheap cigarette lighters in Zhang Qi, slip down the coast to the giant shoe factories of Wen Ling, then move back inland to Yiwu, which not only makes more socks than anywhere else on earth, but also sells almost everything under the sun.”

At a broad level, China’s role as a huge exporter of labor-intensive products reflects comparative advantage: China is clearly labor-abundant compared with advanced economies. Many of those labor-intensive goods, however, are produced by highly localized industries, which benefit strongly from external economies of scale.

7.2 Tinseltown Economics

What is the United States’ most important export sector? The answer depends to some extent on definitions; some people will tell you that it is agriculture, others that it is aircraft. By any measure, however, one of the biggest exporters in the United States is the entertainment sector, movies in particular. In 2011, rental fees generated by exports of films and tape were $14.3 billion, compared with only $10.2 billion in domestic box office receipts. American films dominated ticket sales in much of the world; for example, they accounted for about two-thirds of box office receipts in Europe.

Why is the United States the world’s dominant exporter of entertainment? There are important advantages arising from the sheer size of the American market. A film aimed primarily at the French or Italian markets, which are far smaller than that of the United States, cannot justify the huge budgets of many American films. Thus, films from these countries are typically dramas or comedies whose appeal fails to survive dubbing or subtitles. Meanwhile, American films can transcend the language barrier with lavish productions and spectacular special effects.

But an important part of the American dominance in the industry also comes from the external economies created by the immense concentration of entertainment firms in Hollywood. Hollywood clearly generates two of Marshall’s types of external economies: specialized suppliers and labor market pooling. While the final product is provided by movie studios and television networks, these in turn draw on a complex web of independent producers, casting and talent agencies, legal firms, special effects experts, and so on. And the need for labor market pooling is obvious to anyone who has ever watched the credits at the end of a movie: Each production requires a huge but temporary army that includes not just cameramen and makeup artists but musicians, stuntmen and women, and mysterious occupations like gaffers and grips (and—oh yes—actors and actresses). Whether it also generates the third kind of external economies—knowledge spillovers—is less certain. After all, as the author Nathaniel West once remarked, the key to understanding the movie business is to realize that “nobody knows anything.” Still, if there is any knowledge to spill over, surely it does so better in the intense social environment of Hollywood than it could anywhere else.

An indication of the force of Hollywood’s external economies has been its persistent ability to draw talent from outside the United States. From Garbo and von Sternberg to Russell Crowe and Guillermo del Toro, “American” films have often been made by ambitious foreigners who moved to Hollywood—and in the end, reached a larger audience even in their original nations than they could have if they had remained at home.

Is Hollywood unique? No, similar forces have led to the emergence of several other entertainment complexes. In India, whose film market has been protected from American domination partly by government policy and partly by cultural differences, a moviemaking cluster known as “Bollywood” has emerged in Bombay. In recent years, Bollywood films have developed a wide following outside India, and film is rapidly becoming a significant Indian export industry. A substantial film industry catering to Chinese speakers has emerged in Hong Kong; in addition, many U.S.-made action films are strongly influenced by Hong Kong style. A specialty industry producing Spanish-language television programs for all of Latin America, focusing on so-called telenovelas, long-running soap operas, has emerged in Caracas, Venezuela. And in recent years a Nigerian film complex—“Nollywood”— has emerged, using digital techniques to produce relatively low-budget films that are exported as direct-to-video entertainment, largely but not entirely to other African nations.

1. “The Tiger’s Teeth,” The Guardian, May 25, 2005. [↑](#footnote-ref-1)