



Book Regions and the World Economy

The Coming Shape of Global Production, Competition and Political Order

Allen J. Scott
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Recommendation

Allen J. Scott's short, scholarly book makes a compelling case for the future growth of regional economies and explains the key role they are likely to play in shaping future global political and economic development. Though written in dense, academic language, the book makes its points clearly and supports them with research, theory and statistics. Scott's guidelines for 'regional directorates' reflect many experiments that are already under way around the world, and seeks to capture the best features of each. If his basic idea is correct, then a conscious effort to build regional institutions should speed economic development and reduce world economic stresses. This book is heavy reading, but it is concise and to the point. *BooksInShort* recommends it to executives in multinational corporations, entrepreneurs thinking about where to locate, urban planners, civic leaders and government officials - in short, anyone who wants to promote or profit from regional economic development.

Take-Aways

- Capitalism and industrial development create concentrated regions of economic activity.
- Regions are defined by an urban area surrounded by a rural hinterland.
- Regions are becoming the key units of the globalized economy.
- Regions draw talent and resources from surrounding areas.
- Like individual workers, regions become specialized.
- Producers get mutual benefits when they cluster together in a regional center.
- Agglomeration and urbanization are spurring development in the Third World.
- Capitalism flourishes with deliberate collective action, not under purely free markets.
- Regions provide a ground for enhancing economic opportunity.
- The world is reorganizing itself into regions politically as well as economically.

Summary

A Patchwork of Regions

At the same time that the world seems to be shrinking in the new global order, geography is becoming more significant in human affairs. Mankind is facing a new socio-spatial duality, made up of a patchwork of differentiated regions interacting globally.

A region, in this sense, is a geographic area of subnational extent, including a developed metropolitan area and its surrounding hinterlands. In other words, a region is the common spatial framework for daily life for a set group of people. Every region's economic fate is influenced, for good or ill, by what happens in every other region around the world. Improvements in communication and transportation have brought every part of the world into close contact with every other part. Even given that fact, some kinds of social and economic transactions don't work well over long distances.

“With the wholesale resurgence of localized production systems, national economies are starting to look more and more like loose confederations of regional economies.”

New technologies actually have made regions important, while the sovereign state is under stress. The de-coupling of nations from economies is part of this trend. Strategic thinking about the American economy or the French economy may become obsolete. Alternative forms of governance and social organization are taking shape at the regional level. By examining these trends, you can learn how regions can maximize their advantages, work together to divide labor among all regions worldwide and provide some help for poor or failing regions.

“Uneven spatial development is indeed one of the great omnipresent factors that underlies economic growth as we know it.”

In the history of capitalism, the sovereign state has been the highest articulation of economic and political life. Now fast-moving changes are putting pressure on the sovereignty of the state. This new spatial hierarchy has four levels:

1. Global - Disparate economic networks are partially regulated by treaties and conventions.
2. Plurinational - Most international trading blocs are still weak, but this category includes the EU and NAFTA.
3. National - Sovereign states are still the principal locus of power, but are slowly eroding.
4. Regional - Regions are now re-emerging as vital in economic and political life.

“The evidence suggests that we are now moving slowly but steadily in the direction of a break-up of national capitalisms.”

On the global level, capitalism and industrialization always create concentrated clusters of development in some areas while leaving other areas almost untouched. You can see this unevenness in a pattern of core and peripheral spaces. The cities in the core are surrounded by rural areas, which provide food, resources and services for the center. These regions often specialize in particular products, which generates inter-regional trade.

The Role of Nations

National capitalism reached its peak in the 1920s through the 1960s. In these years a "Fordist" system of labor relations became a key to economic success. Fordism divides labor into a large pool of unskilled or semi-skilled laborers supervised by a small group of white-collar workers under terms defined by labor contracts. Now the world is moving past Fordism toward a globalist economy. Capitalist growth is focused on high-tech manufacturing, consumer-oriented industries and services.

“In today's world, the proximate and the distant are almost equally familiar.”

Geographically, accelerating globalization is coupled with a process of de-bordering, as national boundaries become more porous. National economies are merging. Governments are gradually losing power and control. Though the state still has powerful social and cultural roles, economic systems are moving increasingly toward the regional level.

“To an ever-increasing extent, national governments are finding that the capacity to intermediate between their internal realms and extra-national economic events is in jeopardy.”

Around the world, dense concentrations of capital and labor are forming in metropolitan areas. These will be the basic units of the global mosaic of regional economies. They become increasingly enmeshed with each other as labor is divided among them. These urban centers are the motors that drive regional economies, and the larger they get, the more powerful they become. They are growing at a remarkable rate, drawing talent from surrounding areas. Over time, the world's regions will become more specialized and differentiated. They will rely on each other for specialized labor and production. This convergence of resources, called agglomeration, is the source of much of the world's economic development.

Labor and Industry: The Regional Perspective

Any social division of labor happens in an economic space as well as a physical space. Within that economic space, numerous externalities (occurrences or activities outside the control of an individual firm) impose costs and bring benefits. Some of the most potent externalities arise from the never-ending exchanges that occur as individuals and firms interact and learn from each other. These transactions lead to tiny incremental improvements in products, procedures and services, which add up over time. One advantage of agglomeration is that there are more interactions and therefore more externalities. Everyone in an industry benefits from the resulting improvements.

“I submit that we are poised at the early stages of the rise of a global economic order characterized by just such a set of regional motors as this.”

Infant industries may start out in several cities before one breaks through as the leader. This can happen for small, almost random, reasons, but once a region is established as the leader, agglomeration accelerates and its lead grows, usually leading to a lock-in phase. At that point, its lead is all but insurmountable. Today, in the post-Fordist economy, we see a new surge of agglomeration and regional specialization. Yet these urban areas always have large pools of low-wage and marginalized workers, and so are subject to major social problems and unrest. Globalization and the neo-conservative social policies that came to the fore in the 1980s have aggravated these problems.

“The emerging global mosaic of regions provides an evolving terrain for numerous experiments in building new types of local political institutions and forms of social conviviality, as well as new types of economic community.”

Much of what passes for common sense about how capitalism ought to function, comes from the general equilibrium model of economics, which states that perfect competition will lead to a perfect harmony of supplies, demands and prices. In reality, though, markets do not actually behave as the general equilibrium theory predicts. Competition and markets are made possible by an underlying system of institutions and conventions that is not created by capitalism. The best results actually come through a combination of collective intervention with competition and markets. A growing body of theory about how regions can govern their economies focuses on building both private and government institutions, and building them from the bottom up, rather than from the top down.

Regional Choices

Regions have their own distinct economic cultures, and these cultures boost development and growth, and affect how a region is governed. Much of a region's specialized knowledge, which is never codified or centralized, resides in its local cultures. Regions often act to preserve and enhance their advantages. These actions fall into five broad categories: Provision of new technology and design services - Regional services can share the costs of research and design innovations collectively. This kind of cooperation has proliferated throughout North America, Western Europe and Japan in the past 20 years. Worker education and training - Labor unions, trade associations, local governments, colleges and universities all help maintain a labor pool with agglomeration-specific skills. Collaborative networks - Firms collaborate, allowing each one to focus on its core competency while working on larger products. Networks encourage interdependency. Regional marketing services - Local governments and industry associations cooperate to promote their specialties and hold on to their consumer market niches. Other services - These services include community banking and investment firms, "real services" such as accounting and payroll services, and public/private organizations. Some kind of collective action is clearly needed to steer regional economies to the best long-term choices and outcomes, even when

they are less attractive in the short term. Strategic regional economic planning should begin with a thorough audit of local assets and the opportunities for development of these regional advantages and for building local institutions. Poor regions also stand to gain from agglomeration and regional development. With more countries growing this way, it is possible to imagine 'the end of the Third World.' However, urbanization and agglomeration are the keys to the accumulation of physical and human capital needed for development, which also requires an accompanying social structure capable of sustaining networks of production and exchange. You can see agglomeration at work in areas such as Southeast Asia, where urban centers are becoming the engines of economic development. Worldwide, successful regions share a pattern of specialization, cooperation among firms, a solid fabric of social and cultural relations, and supportive government programs. The world is also reorganizing itself politically into regions. Most existing forms of local government need help to deal with the challenges of post-Fordist globalizing capitalism.

The New Regional Directorate

Regional development requires a regional directorate, a system of local control and coordination including government agencies, civil associations and public/private partnerships. This regional directorate should provide some internal coordination and independence. It should have:

- The authority to negotiate and monitor beneficial agreements.
- The resources to build institutions across the local economy, so everyone benefits.
- The capacity to create policy and guidelines for guiding the regional economy.
- The power to engage in meaningful encounters with other regional directorates.

“Successful development programs must inevitably be judicious combinations of general principle and localized compromise, reflecting the actual geography and history of each individual region.”

As regional development accelerates, confrontations and conflicts among regions are likely to become more common and forceful, creating a whole new set of problems in the global mosaic. We should expect to see economic development races proliferate, with great resources wasted unless regions agree on economic agendas. Regions under economic threat will resort to protectionist policies, leading other regions to do the same. Some regions will poach on others, as some already do, diminishing the positive affects of agglomeration.

“We can almost always achieve better results through deliberate action than through blind faith in the infallibility of market-driven outcomes.”

Regions will likely form bilateral and multilateral joint ventures, which may require some wider mediation of this process. Multinational corporations will be key mediators in this process, but these companies have the potential to play regions against each other for their corporate advantage. They can demand public subsidies for locating in a particular region. Workers will migrate from poor to wealthy regions, exacerbating social problems for local governments. Finally, and most perplexing of all, there will remain a gulf between more-developed and less-developed regions, which may be exacerbated by these other problems.

“The trends identified in this book, however, have a dark as well as an auspicious side, and constant intellectual vigilance and social mobilization are essential if the latter is to triumph in the long run.”

Politically, regionalism provides a route to a more sensitive, geographically specific kind of governance than the traditional nation-state. It is consistent, therefore, with efforts to democratize modern life. Though regions are as capable of being repressive as any other entity, regionalism provides the ground for many experiments in creating new forms of social and political institutions and offers the prospect of empowering citizens.

About the Author

Allen J. Scott is a professor in the Departments of Policy Studies and Geography at the University of California, Los Angeles. He is the author of three other books: : *Metropolis*, *New Industrial Spaces* and *Technopolis*.
