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Economic Regionalization

chapter prepared for

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Abstract

This chapter examines current conceptual and empirical thinking about economic regionalization within the global economy, particularly in light of debates about the potential retreat of economic globalization in the second decade of the twenty-first century. It provides an overview of theories of economic regionalization as well as how this concept relates to wider debates about globalization. In doing so, it argues that while there is both a deepening of economic regionalization in some parts of the global economy - and a new geography to this process - it does not represent an overall reversal of wider trends toward greater global economic integration. The chapter illustrates this argument through considering a number of examples at firm, industry and regional level.

Keywords: globalization, regionalization, global economy, regional economies, transnational firms

1) Introduction

After several decades of debate within human geography and other social sciences disciplines about the concept of globalization, in the second decade of the twenty-first century there has been a growing set of arguments developed that globalization is in retreat (Lund *et al* 2013; Bodoni & Surgun 2017). Understood as the broad integration and growing interconnectedness of all aspects of social life at the planet-wide scale (Jones 2010), a large proportion of the globalization debate has focused on a narrow aspect – the globalization of economic activity. In fact, in popular debates in the media and politics, globalization is itself often equated with economic globalization – the power of transnational corporations, the shift of manufacturing production to different locations around the globe or the nature of globalized finance (Ritzer & Dean 2015). It is in that context also that more recent interventions have sought to suggest a retreat from (economic) globalization and a retrenchment towards the regional scale in the integration of economic activities. Over the last decade, therefore, the concept of economic regionalization has been widely associated as being in many senses in tension or even the opposite of the neoliberal economic globalization experienced across the global economy since the 1980s (Sunkel & Inotai 2016). Rather than the unbridled and unchecked integration of economic activities at the global scale as expressed in the hyper-globalization of the 1990s (c.f. Held *et al* 1999), economic globalization has diminished and reduced as a process and economic activity has receded to the regional scale (Cooper *et al* 2007; Altman 2009). Economic regionalization in this sense is often defined as the intensification and focus of economic activities within regions at the expense of linkages and organizational arrangements of greater distances. In the current era of resurgent nationalism in the advanced industrial economies of Europe and north America (Cull 2016), along with political debates about increasing national economic protectionism (Greenaway *et al* 2016), it would appear that economic globalization and economic regionalization are in thus in tension and competing trends.

The key argument developed in this chapter, however, is that they are not and that a more sophisticated understanding of economic regionalization reveals how its development is entwined with wider globalization processes that have continued but evolved in the last fifty years. Despite widespread lack of clarity – as well as a tendency to counterpose these concepts as opposites – economic regionalization needs to be seen as another manifestation of economic integration across space that is entwined rather than in contradiction with more generalized

globalization. That is not to say that regionalization and globalization amount to the same thing, nor that there are not countervailing tendencies where global scale integration has been superseded by intensifying integration at the regional scale. Rather the argument is that where globalization does appear to have been ‘replaced’ by stronger trends of regionalization, this intensification at the regional level remains strongly embedded in wider context of simultaneous global scale integration.

To understand these arguments in more depth, the chapter first addresses some key conceptual issues of definition that also have not been clear in the social science debate about economic regionalization. In the next section, it briefly examines how economic globalization itself might be defined and the various facets to this process in the contemporary global economy. In the following section, it then uses this discussion to offer a definition of economic regionalization but also consider the significant challenges that exist in understanding the process and what is meant by ‘a region’ itself. The fourth part of the chapter moves on to develop the argument that counterposing economic globalization with economic regionalization amounts to a false dichotomy, elaborating the contention that there is a need to develop a more sophisticated conceptualization of the nature of economic regionalization. Finally, the chapter draws together some conclusions about how economic regionalization might be better understood in future theoretical and policy debates.

2) Defining economic globalization

To understand the contemporary context of economic regionalization as a process, and what we might mean by that, we first need to frame this understanding around the broader idea of economic globalization. In this respect, if the concept of globalization itself refers to ‘societal integration at the planetary scale’ (Jones 2006) in general, then undoubtedly the globalization of economic activity has and continues to play a very central role in this process. We can therefore define economic globalization as the growing integration and interconnectedness of a range of different dimensions to the capitalist world economy, and whilst this has been going on for many centuries, it is more the intense phase of economic globalization that has occurred since the end of the Second World War which has most concerned social scientists (Scholte 2005; Bisley 2007). Since the later part of the twentieth century, social scientists from a range of disciplines

have argued that processes of economic globalization have made it increasingly appropriate to refer to one, integrated global economy (Dicken 2015). There are a range of factors that have led to this situation in the last forty or fifty years – the changing nature of international politics, deregulation, new information and communication technologies are just a few – but overall the degree to which economic activity in the twenty-first century is interconnected across the globe is greater than at any point in human history. For geographical thinkers and regional scientists, central to their analysis is to try to better understand and theorise how these processes have been *uneven* with very different impacts in different parts of the globe and between different regions (Mackinnon & Cumbers 2014). It is worth considering in more depth the historical development of this process. There are three key aspects I would suggest are important.

Firstly, something that might be called world economy has existed throughout human history but, until relatively recently, economic activity was largely confined to the places and localities where it was undertaken (Held *et al* 1999). In pre-industrial societies, economic activity entailed the production of food and various manufactured goods that were largely produced and consumed in the same local areas. However, notwithstanding this, the earliest form of what we might regard as economic globalization does have a long history in the form of trade between continents, regions and more recently (in the modern period) across national borders. In that sense, the integration of economic activity stretches back into antiquity, and human history over the last three millennia has seen a variety of different local regional, globally extensive trading systems (*ibid.*). Early processes of economic globalization are evident a surprisingly long way back with, for example, the Roman Empire organising cross-continental economic activity around trade. The Chinese empire that existed for more than a thousand years in the middle ages also extended currencies, trade and other limited forms of economic activity at an inter-continental scale (Hobsbawm 2007). In that sense, in the medieval period we can talk about a world economy. However, and of particular importance to understand, its *degree* of global integration is very limited even if a few global-scale interconnections did exist (Held *et al* 1999; Ritzer & Dean 2015). That is to say, whilst there were a surprising number of global scale linkages, their number, volume and intensity were very limited.

Second, what we mean by economic globalization in today's world is related to the nature of today's capitalist world economy that has developed since the sixteenth century, and which has been 'global in its scope' since the nineteenth century (Wallerstein 1974; 1979). Capitalism

as a form of economic organization emerged in western Europe and spread out through the globe through European colonial expansion and then later empires. During the twentieth century, an international system of nation-states gradually replaced these empires to cover the world map. However, early economic globalization was sporadic in nature. During the nineteenth century, there was considerable integration of many new parts of the world into the capitalist system, but the two world wars and their political consequences in the first half of the twentieth century interrupted and in fact reduced some of this economic integration (Hirst, Thompson & Bromley 2015). The world that emerged in 1945 after the Second World War was divided between the capitalist first world, the communist second world and the developing third world. This 'tri-partite' world had a range of barriers to further economic integration with states regulating how much money and how many goods and services could be traded across national borders. A large part of the global map was communist and disconnected from the capitalist world economy altogether (Flint & Taylor 2007)

Third and finally, since the early 1970s this situation changed and the disconnected world economic system began to become more interconnected in a number of ways. During the 1970s, the degree of regulation of money exchange, flows and trade was progressively reduced as nation states and international organisations removed restrictions (Garrett 2000; Holton 2001). In the advanced industrial first world, it became much easier to move money around the globe, for companies to invest overseas and for goods and services to be exported to new markets. This financial globalization was therefore an important basis for wider economic globalization because - when combined in the 1980s with new informational and communications technologies - it made it easier to move goods, people and services, for overseas investments to be made and for economic activity to be organised at the international level (Castells 2009). However, the extent and pace of these economic globalization processes accelerated dramatically during the 1990s. The central reason was the collapse of the Soviet Union and the re-integration of most of the communist second world into the global capitalist economic system. Even those states that remained communist - most notably China - largely sought to open their economies to the world capitalist economy. Combined with further deregulation and liberalization of international trade associated with an increasingly dominant neoliberal ideology and ongoing advances in information technologies, economic activity became increasingly interconnected across all national borders. It is therefore in the last 40 years that it has become meaningful to refer to a

globalized economy since more or less most nation-states across the globe are integrated into the capitalist world economy (c.f. Gilpin & Gilpin 2000; Wallerstein 2004)

The trajectory of this much more advanced integration of the world economy into one global capitalist economy in recent decades has been deeply uneven, and there are a range of social scientific theorists who have argued that integration has been strongest at a regional rather than a global level (e.g. Rugman 2001). In this respect, economic globalization in general has been arguably been characterized by underpinning processes of economic regionalization occurring at the same time and as part of the wider process. There is however a considerable debate as to whether economic regionalization is just part of wider globalization, or represents a different process that cannot be subsumed into globalization in general. The next task of this chapter is therefore to examine the complexities around defining economic regionalization.

3) What is meant by economic regionalization?

Economic regionalization in its simplest and intuitive sense can be understood as a process whereby economic activity becomes increasingly focused and concentrated within regional territorial space. An important implication underpins this idea which is that for economic regionalization to occur, economic activity must be diminishing in its focus or constitution across other scales. If economic activity is more regionalized, then it follows that it is becoming less localized or globalized (scales 'above' and 'below' that of the region respectively) (c.f. Sheppard 2002). Regionalization thus often implies the prevalence of the regional scale as the increasingly important scale at which economic activity is organized in relation to others. An example might be where a group of firms that have global supply chain linkages with firms located across the planet, replace those linkages with ones to firms within the sub-national region in which they are located. In this respect, by definition economic regionalization as a process largely presupposes the existence of a coherent thing that might be understood as a 'regional economy'.

However, the concept of the regional economy – as discussed elsewhere in this book – is not necessarily straightforward and is problematic around at least three interrelated aspects – first, whether regions are sub-national or supra-national entities (or both); second is the question of what bounds the region or the regional scale (where does one region end and another begin?);

and third, the extent to which economic activity located within a region part of an economy that can be understood to be ‘contained’ in that territorial space (c.f. Agnew 1994).

With regard to the first of these issues, the concept of the regional economy is widely used as both a description of global scale groupings of national economies (e.g. the Eurozone economy or the South American economy), and sub-national regions (e.g. the Californian economy, the Baden-Wurtemberg region in southern Germany or the ‘coastal’ regional economy of China). It is important to realise that there are thus important differences between these two types of regional economies. Supra-national regional economies are essentially amalgamations of separate national economies (e.g. the Asian economy as China, South Korea, Japan etc) that have clear national borders between them but which are (generally) adjacent in territorial terms. The internal and external boundaries of these supranational regions are usually straightforward to identify insofar as they follow the national borders of states. Yet these two different types of regional economies are often not clearly differentiated. Media discussion of regional economies, for example, often treats sub-national and supranational regional economies similarly, referring to the fortunes of the ‘south Asian or east Asian economies’ (supranational) in the same terms as southern Indian economy or Chinese coastal regions (sub-national). The important issue is that the scale, boundaries, governance and coherence of these ‘regional economies’ in fact varies considerably.

Coming to the second issue, the boundaries of regional economies are ill-defined and used variably. Different nation states are included in different supranational regional economies – for example, is Indonesia in the south-east Asian regional economy? There is often no definitive answer with different agencies, commentators or organizations including different sets of national economies in their understanding of a given supra-national regional economy according to their purpose. This is further complicated by formal free-trade associations which overlap but do not fully incorporate all the national economies within a geographical region. Not all European countries are in the European Union, but the concept of the European (or even just west European) regional economy can be used either including or excluding non-EU member states. The boundaries of sub-national regional economies are even harder to demarcate, however, and used with greater inconsistency and lack of precision. Within the EU, for example, the European Union devised a set of standard territorial units (known as NUTs after the French *nomenclature d'unités territoriales statistiques*) based on administrative districts that

government, policy-makers and research use. For policy purposes, the EU often defines regional economies around these NUTs units, but in wider usage by different government, policy, research and media sub-national regional economies are much more loosely and variably specified. Where in the UK the boundaries of east Midlands or north-east regional economies can be drawn is not universally recognized. Similarly, there are competing definitions of what represents the southern boundary of the northern Italian economy, or the economy of the southern United States. Such regional economies are generally understood in terms of the major areas they cover (Milan is part of the northern Italian economy and Rome is not), but there are not consistent uses and definitions of places that are more at the periphery of these regions. Clearly, classifications of regional economies based on administrative districts are more distinct (e.g. the economy of Galicia in Spain, the US state of Texas or Sichuan province in China), but frequently when a sub-national regional economy is referred to, there is imprecision, inconsistency or lack of agreement on boundaries.

Finally, and related to the third question, is the most difficult issue of all: the degree of which an economic activity can be understood to have occurred or exist *within* a given regional territorial space or scale (c.f. Marston 2000). Whilst in a straightforward manner, firms have factories, offices and production facilities in given territorial places (in that sense the economy always happens somewhere), the contemporary production of goods and services is increasingly distributed across multiple locations. A great deal of the global economy's outputs are products accounted for by a relatively limited number of very large transnational firms, their subsidiaries and supply chains in most industries (UNCTAD 2016). This shift in recent decades - and with the internationalization of firms and production - means that many material goods are manufactured across multiple places with components (and their components) originating from different places. This significantly complicates what we might understand the economy of a region to 'be' which, if measured, restricts economic activity to a territorial container that in many senses it is constantly transgressing. Of course governments, policy-makers and researchers all seek to measure the economies of regions in terms of the wealth generated and the firms and jobs that exist in those territorial places, but in reality these measures are imperfect and need to account for how the economic activity within a region may be heavily embroiled and dependent upon lots of activity not occurring in that territory. A good example would be a car assembly plant whose operation relies on hundreds of components being manufactured by many

different firms in many different places outside the region it was located in (Liu & Dicken 2006). In that sense a concept of the process of economic regionalization which is based on the development of economic activity in a given territory is often likely - in today's global economy - to still be heavily bound into economic activities not occurring within that territory.

Overall, therefore, the general definition of economic regionalization as a process of the concentration and greater focus of economic activity within a regional territory is broadly meaningful if the problematic issues identified above are taken into consideration. We can refer to this process in the abstract but it exists always in a scalar contrast that is also blurred at its boundaries and limits. Regionalization occurs at the expenses of larger or smaller territorial units (the nation above and localities below), and where regions 'start' and 'stop' in territory is inconsistent and arbitrarily defined in a way that the nature of economic activity does not necessarily respect. Most of all, however, in today's world, economic activity is only at best partially 'contained' within territorial space and this sits uncomfortably with the opposition of economic regionalization as a process that contrasts or counters economic globalization. It is therefore to this issue we turn next.

3) Regionalization versus globalization? The false dichotomy...

Much of the globalization debate of the last thirty years has only intermittently and often partially engaged with the complex spatialities of globalization processes and global societal integration (c.f. Amin 2002). During the 1990s, debates about globalization were often framed around simplistic understandings of globalization as creating homogeneity and sameness (Bisley 2007) and the longstanding simplistic idea that this constitutes an 'end of geography' (c.f. O'Brien 1991; Friedman 2007). Globalization was in this sense seen as a process by which places and their attributes became increasingly the same – manifest in arguments about the loss of local cultural difference, the presence of the same transnational corporations (TNCs) across the planet, selling similar products and creating a convergence of economies, cultures, politics and other aspects of society. Whilst the last decade has seen such perspectives strongly challenged and a more diverse and sophisticated approach to understanding what globalization 'is' (as a complex set of tendencies rather than a singular process or end state (Dicken 2015), much discussion of globalization within a range of social science disciplines still does not

foreground the intrinsic spatio-temporal nature of the transformations it is associated with (Jones 2010). In considering both the debate about economic regionalization in relation to globalization, and its limitation, I want to argue that a conceptual understanding of the spatial and temporal aspects to economic integration that underpin *both* what is being often termed economic regionalization and economic globalization in the contemporary global economy provides a theoretical path through many of the challenges.

The starting point for understanding this debate is the way in which through the emerging globalization debate of the 1990s, the argument was developed that globalization was not as pervasive as some of the leading thinkers and commentators were arguing. A number of social scientific thinkers from different disciplines spanning sociology, geography, management studies, international business and anthropology countered the ‘hyperglobalist’ argument that saw globalization as an unstoppable force by empirically-backed interventions that pointed to how economic activity continued to be heavily concentrated in regions, and that much of the argument about economic globalization rested on the increasing interlinkage of regional economies across the globe (e.g. Amin & Thrift 1995; Scott 1999). This argument was developed around both clusters of firms and industries in regions and in understanding how transnational corporations organised themselves across the global economy (Coe *et al* 2012; Dicken 2015). A leading international business thinkers, Alan Rugman, provided a significant intervention that exemplifies this in arguing that (economic) globalization was ‘at an end’ in the early 2000s. His argument was based on empirical analysis of leading TNCs in a wide range of sectors which he argued showed increased economic regionalization not economic globalization – firms activities were increasingly integrated at the supranational regional level but not at the ‘truly’ global scale (Rugman 2001). The globalization theorists were, in short, overstating the extent of global-scale integration, but the current period in fact represented an unprecedented period of economic regionalization. TNCs were not the harbingers of economic globalization, but deepened economic regionalization (*ibid.*).

Another prong to this critique of economic globalization also came from political science (e.g. Boyer & Drache 2005) and management studies (e.g. Meyer *et al* 2011) which examined patterns of global trade and foreign direct investment to make similar arguments to Rugman around growing regionalization rather than ‘true’ globalization. The contention in this strand of work is that most of the world’s nation states trade most with their near (supranational) regional

neighbours (Hirst, Thompson & Bromley 2015). To a lesser extent, the same is also true in relation to foreign direct investment (FDI) (Holton 2001). The extent, therefore, in recent decades of the development of a level playing field of global trade and investment, flowing relatively unrestricted across borders, was challenged on the grounds that much of the world's economic activity is focused around supranational regions. Whilst there has been the development of global-scale linkages, the counter argument was that this represents only a modest fraction of cross-national economic activity. In simple terms, such a point continues to be captured in the fact that most European economies do most trade with other European states, the US with Canada and Mexico and the south American states with each other (both those within and outside the Mercosur trading bloc) (Hirst, Thompson & Bromley 2015). There has thus undoubtedly been an ongoing growth in the volume of trans-continental trade over the last few decades, notably as China and other Asian economies have grown substantially as well as more modest integration of some African states into patterns of global trade and investment, but supranational regional economic linkages still dominate numerically. In that respect it would seem there is considerable validity in the view that economic globalization has been overstated where in fact economic regionalization is the more dominant process. This has been amplified over the last 5 years or so through the debate about the apparent 'retreat of globalization' and era of increased trade protectionism (whether than be the challenges to the European Union or the dissatisfaction with NATFA in the USA).

However, in this final part of this chapter I want to elaborate the argument that to a large extent this debate is misconceived around a false division between two intertwined processes. The issues rests on the way in which several social science disciplines have developed theoretical understandings of the integration of economic activity using certain sets of data that do not fully capture all of the transformations to the global economy that have been occurring. To a large extent the conception of a (hyperglobalist) economic globalization - where global-scale economic integration occurs relatively easily and potentially equally everywhere - was premised on the evidence of new and unprecedented levels of relationships at the planetary scale. This was challenged with data on the volumes of trade and investment which are measured between nation-states, and the extent to which greater volumes occurred between states within supranational regions or which were more distant from each other. Similarly, within international business, the data used by Rugman (2001) and others to provide the empirical basis for arguing

for regionalization over globalization is based on firm datasets collected around nationally-registered firms or subsidiaries and based on the location of their registered activities. Whilst both approaches do offer insight into macro-level changes in the global economy, there are significant limitations around the theoretical arguments that can be developed using datasets of this nature. Trade data does not tell you about the nature of the economic relationship underpinning a transaction, for example, and increasingly captures different subsidiaries of the same TNC ‘trading’ with each other. Equally location-based data for firm head offices and subsidiaries provides little insight into the nature of activities undertaken in certain places and their relation to others. This limits the understanding of the nature of economic activity in given territorial spaces and therefore the scope to differentiate whether these activities are actually well understood as being ‘contained’ within states, regions or part of global-scale activity.

In fact, and in contrast to this simple opposition of globalization and regionalization, other strands of firm-level work within economic geography and management studies have shown that the deepening of global-scale and regional-scale (both subnational and supranational) economic integration are often interdependent. Research into the way that TNCs have constructed complex global production networks (GPNs) (Coe & Yeung 2015) reveals how manufacturing in many industries is now a global scale activity orchestrated by firms involving sometimes hundreds and subsidiary and sub-contracting supply firms in dozens of locations around the globe (c.f. Dunning & Lundan 2008). However, and importantly, these complex production networks are not evenly distributed across global economic space but also often incorporate regionalized concentrations around clusters of firms in certain industries or sub-sectors (Storper 1997). Good examples of this would be the aircraft industry, dominated by a small number of very large transnational firms such as Boeing and Airbus (c.f. Ferdows 1997). Both have areas of historical assembly, research and development (the Pacific north-west of the US for Boeing, or the south-west of France for Airbus), but are drawing on supply chains where components are coming from clusters of firms in those and other regions. Similarly in electronics, Apple is famously centred on the Californian economy, but its manufacturing operations in China have produced both a regional concentration of supply firms and economic development in several of the southern coastal provinces and global-scale component production networks stretching across many continents (Coe & Yeung 2015).

The key point is that to a large extent economic globalization and economic regionalization are co-dependent processes occurring in synchrony. The concentration and development of certain types of firm clusters and industries in one region is related to global-scale linkages through multiple production networks and supply chains. This is not to oversimplify our understanding of these processes – there are certainly many cases of regionalization being less related to global-scale linkages, or global-scale linkages having less of an impact on the nature of a regional economy. Rather the argument is that with the increasing complexity of economic linkages between networks of large TNCs in the global economy, dividing our concept of economic integration between a regional and a global-level process is unhelpful and may conceal more than it reveals.

4) Conclusion

The aim of this chapter has to provide an overview of the concept of economic regionalization in relation to regional development, and in particular how it relates to the wider concept of economic globalization. It should be clear that the way regionalization has been discussed across social scientific thinking and research over the last thirty years is inextricably bound into the wider debate about economic globalization, and that it is important in considering what is meant by this process in the context of those wider debates. The analysis has considered how much of the surrounding conceptual debate has been framed around the idea that economic regionalization is in some way a countervailing process to wider economic globalization: in short that economic activity is becoming more regionally-focused as opposed to either ‘truly’ globalized, or to a lesser extent more localized. The main argument that has been developed in relation to this is that the terms of this debate are misconstrued, and that to a considerable extent what we may understand as economic regionalization and economic globalization respectively are overlapping and entwined processes. Whilst in some contexts it might be relevant to see these as opposing trends in the spatial configuration of economic activity, a wider academic literature reveals the complexity of how these processes are often occurring not only simultaneously but as a consequence of each other. Furthermore, recent debates concerned with the apparent ‘retreat’ of (economic) globalization in light of apparently increased protectionism and the fracturing of free trade agreements (e.g. Brexit in the EU), need to be informed by a more sophisticated

conception of what regionalization might be. The reconfiguration of regional trade alignments, or new institutional barriers emerging in the global economic landscape, should not simply be equated with some kind of deglobalization and a re-emphasis on the region.

This is not to argue that there is no value in either the concept of economic regionalization nor that researching this process is not important. In drawing some conclusions for the future development of research and thinking, I would end by arguing that there is a need to develop a much more sophisticated theoretical understanding of how regional economies are bound into activities of proximate and distant actors. People still live and work in regions, and economic activity always takes place somewhere, so the concept of the regional economy (definitional issues notwithstanding) and the idea of regionalization have considerable utility. Social scientific research and thinking around global production networks (GPNs) and transnational firms has provided a powerful basis for a more spatially-sophisticated of the nature of regional economic space, but there is considerable scope for developing these ideas further. Such approaches have, for example, not pushed the understanding of the role of trans-regional institutional or socio-cultural linkages and their influence on regional economic trajectories to the same degree as that around firms or supply chains. In that respect, future theories of economic regionalization could begin to better understand the complex interaction of economic and non-economic factors that ‘perforate’ (c.f. Amin 2002) regional economic space from within and without of territorial boundaries. This should move the debate beyond simplistic either / or understandings of regionalization and globalization, and it is in this direction that it seems likely future thinking on the process of economic regionalization will continue to evolve.

[5217 words]

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