Lecture 4

Political Economic Geography
Political Economic Geography

I. The State

II. Rise of the State

III. Continental Blocs
I. The State

A. Economy & Territory
B. States & Politics
C. States & Economies
D. Liberal Use of Force
What is an economy?

- Material system
  - production, exchange, consumption
- Social system
  - Rules, laws, institutions
  - Social order & social fabric
- Power system
  - Power of classes (races, men, strata, etc.)
  - Power of states
- *Territorial system*
  - Places where this all happens
  - All economics is territorial
What is a territory?

- More than just a place
  - Locale
- Bounded space
  - Degree of closure
- Unified space
  - Degree of uniformity & coherence
Territorial scales
(part II of course)

• States (lectures 4 & 5)
• Continents (sic) (lectures 4 & 5)
• Global (lectures 6 & 7)
• Places & Regions (lec’s 8 & 11)
I. The State

A. Economy & Territory
B. States & Politics
C. States & Economies
D. Liberal Use of Force
What is a modern state?

- National territory
- Unique sovereignty
- Legitimate power
  - Not the same as kingdoms, empires, etc.
  - Prefigured in early modern period > 1500
Political economy

- No economies without states
  - Fundamental unit of modern economics
    - Most economics makes ‘national’ natural
    - Economic geography looks at all scales

- No states without power
  - No power without politics
    - States not the only sites of power, but crucial
    - Critical to economic geography
Political Economic Geography

- States are territorial
  - They draw boundaries
  - They consolidate & expand territory
  - They guard & fight over territory

- National territories shape economies
  - Trade boundaries
  - National firms & industries
  - National city–systems
  - National development policies...
  - And much more
Powers of the state

- Legal (courts, police, prisons)
- Fiscal (taxes, transfers, money)
- Administrative (civil service, executive)
- Political (representation, command, ideology)
- Force (army, police)
Politics & state power

- State leaders
  - Politicians
  - Technocrats/Civil Servants
  - Military

- Classes & class leaders
  - Capitalist (business, finance)
  - Landed (large landlords, peasants)
  - Workers (urban & rural)

- Who controls whom?
  - Politics of power
  - Politics of policy

- Balance of power between state & class
  - P. Evans, *Embedded Autonomy*
I. The State

A. Economy & Territory
B. States & Politics
C. States & Economies
D. Liberal Use of Force
States & economic base

- State power rests on economy
  - State revenues & expenditures
  - Industry and modern warfare
  - Weight in world affairs

- States promote economic growth
  (capital accumulation)
  - For revenues, military, global weight
  - To satisfy class demands (profits, jobs, etc)
  - To unite people & territory
What States Do – Basics

- Economic integration
  - Transport & communication
  - No internal trade barriers
- Monetary system
  - Banks & currency
- Rules of the game
  - Business law
    - contracts, torts, nuisance, etc.
  - Regulation by agency
External relations

- International trade
  - Customs, tariffs etc.
- Money & exchange
  - Sound currency
- Military & war
  - Treaties
States & development

- ‘State-led development’
  - Holy Grail of Late Developers
  - Theorists
    - Vs. Neo-Liberals/free market economists

- Trade policy
  - Protections
  - Subsidies
  - Free Trade Zones

- Capital controls
  - Outflow
  - Savings

- Industrial policy
  - Investment
  - Champions
  - Performance

- Technology policy
  - Students & research
  - Moving up
  - Technopoles

- Worker controls
  - Unions
  - Wages
  - Mobility

- But much, much more...
And more...

- Business organization
  - State ownership
  - Legal rules
- Money
  - Currency value
  - Rate of interest
- Trade agreements
  - Bi-national
  - Continental blocs
  - Global (WTO, etc)
I. The State

A. Economy & Territory
B. States & Politics
C. States & Economies
D. Liberal Use of Force
Myths of liberalism

Liberal axioms

- Self-regulating market
- State is neutral
- Globalization is natural
- Imperialism is dead
  - Balance of power

Reality Check

- States enforce markets
- States reflect class power
- States promote globalization
- States go to war & Empire lives on
"The hidden hand of the market will never work without a hidden fist. McDonald's cannot flourish without McDonnell Douglas, the designer of the US Air Force F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies to flourish is called the US Army, Air Force, Navy and Marine Corps."

Thomas Friedman - *The Lexus and the Olive Tree*
Political Economic Geography

I. The State

II. •Rise of the State

III. Continental Blocs
II. Rise of the State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
The Modern State

- Europe (1650–1870)
  - Britain (1640–60, 1688)
  - France (1789), Greece (1822)

- America (1776–1820)
  - U.S., Haiti (1776, 1803)
  - Spanish South America, Mexico (1810–30)

*Echoes of center and periphery*
States on the Rise

- Europe
  - Germany (1870), Italy (1860–70)
- Americas
  - Canada (1867), Brazil (1889),
- Asia
  - Japan (1863), Thailand (1909), China (1911)
20th Century States

- **Post-WW1** – end of empire in Europe
  - Europe (Russia, Austria–Hungary)
    - Russia, Poland, Hungary, Czechoslovakia, Yugoslavia, etc.
  - Middle East (Ottoman)
    - Egypt, Turkey, Morocco, etc.

- **Post-WW2** – end of European empires
  - Southern Asia (India, Indonesia, etc)
  - Africa
  - Caribbean
Multiplication of States

- 19th C: c. 25
- Post WW1 – c. 50
- Post WW2 – c. 100
- Today – c. 200
II. Rise of the State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
Internal Revolution
Territorial unification
Disintegration & decolonization

Ottoman Empire
World's Largest in the 1600s
Separation/partition

In 1971, East Pakistan declared its independence as the new nation of Bangladesh.
Breakaways

- Split-offs
  - Slovenia, Croatia, Slovakia, Bangladesh, Eritrea, Ireland
II. Rise of the State

A. Origins  
B. Birth Pains  
C. •Consolidation  
D. Consequences
Territorial consolidation

- Stabilizing the territorial state
  - Imposing central authority
  - Repressing regional revolts
    - Britain/Ireland 1650s, USA 1860s, Turkey 1910s, Nigeria 1960s, Russia 2000s, Sudan 2000s, China & Tibet
  - Holding off other states
    - Columbia 1910, Chile–Bolivia–Peru 1879–84, Gran Colombia 1821–41 (Ecuador, Venezuela, Panama), Mexico–US 1846–48
Political consolidation

- Stable government
  - Long periods of struggle
    - France, Mexico, China, etc.

- Republics & Parties
  - Beyond kings & dictators
    - France, China, Japan, Germany, Italy, Indonesia, Brazil, etc.
  - Single-party stability
    - PRI in Mexico, LDP in Japan, Russia today
  - Multi-party systems
    - US, Britain etc etc.
Social consolidation

- Unifying language, religion
  - Prohibitions, schooling, legal requirements

- Nationalism
  - The modern state religion

- Economy
  - The market works its magic
Class consolidation

- Bourgeois revolutions & modern state
  - British merchants & farmers
  - US merchants, planters & farmers
  - Latin American criollos
States & Regions

- Federal
  - US, Canada, Germany (> WW2)
- Semi–federal
  - Mexico, China
- Regionalized
  - Britain, Spain, etc.
II. Rise of the State

A. Origins
B. Birth Pains
C. Consolidation
D. Consequences
Fruits of success

- Growing Economy
  - Markets & demand
  - Industry & agriculture
  - Finance
  - Innovation

- Effective Government
  - Stability
  - Good management
  - Sound rules & regulations
  - Lower taxes & tariffs
  - Industrial guidance

- Territorial Development
  - National space
  - City system
  - Regional equalization
State-led transitions

- State may create modern economy
  - And capitalist class

- More than “economic policy”
  - 2d Empire France (Napoleon III)
  - Meiji Revolution Japan
  - Korean miracle (Park Chung-hee)
Non-bourgeois states

- Communist States
  - Russia, China, Vietnam, Cuba.

- National Liberation states
  - Algeria, Libya, Tunisia, Egypt, etc.

- Bureaucratic/one-party/dictatorial
Still-born states

Palestine
Kurdistan
Chechnya
Wales
Euskadi
Fractured States

- Rent by civil war
  - Congo
  - Sudan
  - Colombia

- Unresolved differences
  - Iraq
  - Ireland
  - Bosnia
  - Burma
  - Kenya

- New ruptures
  - Bolivia
Failed states?

Somalia
Afghanistan

- Case of Pakistan
  - Artificial borders
    - Loss of Bengal
  - Weak central control
    - Failed integration
  - Landed elite
    - Weak capital & labor
    - Stagnation
  - Military dictatorships
    - Repression & violence
Consequences of failure

- Political rupture
  - Civil War
  - Rebellion & ‘terrorism’

- Instability
  - Weak parties, shifting leaders

- Lack of economic integration
  - Internal markets, law, infrastructure suffer

- Lack of economic policy
  - No positive steps
Causes of failure

- Weak borders
  - Colonial boundaries
- Warring peoples
  - Deep differences & grievances
- Military bloat
  - Brutal & repressive
- Parasitic dictators
  - State as ATM
- Imperial meddling

- Lack of bourgeoisie
  - Strong landed elite
  - Backward & repressive outlook
- Lack of strong working class
  - Abuses of power
  - Lack of democracy
  - Narrow enrichment
I. The State

II. Rise of the State

III. •Continental Blocs
Continental blocs

- **Definition**
  - Multi-state economic territories
  - Trading blocs -- and more

- **Origins**
  - Promoted by nation-states
  - By mutual agreement (formal)
  - By practice (informal)

- **Unequal power**
  - (but ≠ imperialism)
III. Continental Blocs

A. European Union

B. The Americas

C. Asia
The European Union (EU)

- Prototypical bloc
  - Great experiment

- Evolved over 50 years
  - Monetary union, 1993/2002
Origins of EU

- Political
  - Wreckage of World Wars
  - Control of Nation-State
- Economic
  - Expanded markets & investments
  - Competition with US
- Social
  - European commonalities
  - Social Democracy
EU Expansion

- 1950s core
- 1973 – Britain & Denmark
- 1986 – Mediterranean
- 1995 – Scandinavia
EU poised to add 10 nations
Human rights concerns keep Turkey off list — U.S. displeased

By Robert Wiens
ASSOCIATED PRESS

BRUSSELS — The European Union's executive commission declared right on European nations Cyprus and Malta nearly ready for EU membership and recommended Wednesday that they be looked at in 1994, the most ambitious EU expansion ever.

In a move to further the efforts of the European Community, the European Commission recommended on Oct. 11, 1993, that 10 countries, Bulgaria, Romania and Turkey, be considered as candidates for membership to 1998.

The Commission and the 10 candidates were "ready for integration", starting from the beginning of 1994, although work remains to be done "in a limited number of specific areas."

Romania and Bulgaria most likely will be deterred until 2007 because of weak economic, political, social and other difficulties, the commission said, adding that Turkey was the weakest link among candidates.

The EU report cited improvements in human rights but also a list of lingering shortcomings such as restrictions on freedom of expression and unacceptable pre-war determinations.
EU economics

- free trade zone
- free labor markets (no passports)
- unified currency (Euro)
- continental corporations
- continental finance & capital flows
EU trade

- More internal than external
- De-globalization?
European companies

- Cross-border companies
- Mergers & scale
Euro-Zone

- Euro 2002
- Challenge to the dollar
EU Governance

- EU NOT a state
  - Confederation
    - Not a Federal State like USA

- French Model
  - Centralized (European Commission)
  - Strong bureaucracy
  - Weak parliament
Failure of constitution

- French say 'No' to EU treaty (2006)
- French voters have overwhelmingly rejected the European Union's proposed constitution in a key referendum.
- Almost 55% of people voted "No", with 45% in favour. Turnout was high, at about 70%. The vote could deal a fatal blow to the EU constitution, which needs to be ratified by all 25 member states.
Why the no vote?

- Fear for welfare state
  - Eastern wage levels
  - High unemployment
  - No development grants
- Fear of the Other
  - Anti-immigrant movement
  - Turkey’s entry
- Fear of farm competition
  - Low-cost agriculture
- Political rebellion
  - Complexity of constitution
  - Arrogance of political leaders
III. Continental Blocs

A. European Union

B. The Americas

C. Asia
North America

- NAFTA (early 1990s)
  - US strategy vs. EU
    - Tight embrace of Canada & Mexico
  - Builds on existing trade and investment
    - #1 Postwar Canada
    - #2 Mexican maquila program
Canada & Mexico

- main US trading partners

![Trilateral Trade Graph]

- To Canada: $8.1 billion dlls. 180%
- To U.S.: $134.7 billion dlls. 237%
- From U.S.: $106.6 billion dlls. 135%
- To Canada: $4.4 billion dlls. 281%

Total trade = $1,718 billion
Freedom for goods & capital -- not for labor

Larry Elliott If money can go where it chooses, people should be able to follow

A Free Market in Hypocrisy

Get out your fixed-exchange-rate nerve....

There was nothing like the shock of the city.

The market for labor is a free market.

Either liberalisation is the way to maximise economic welfare or it is not.
Geographic effects of NAFTA

- Mexico side
  - More border industrialization
    - Up to 1 million jobs in 1990s
  - US investment in services
    - Hotels, banks, Wal-Marts, fast-foods, etc.
  - Decline of peasant agriculture
    - US corn exports
  - Growth of cross-border cities
    - Tijuana, Cuidad Juarez, etc.
  - More Mexican migration north
    - But how much?

LOS ANGELES TIMES
THURSDAY, DECEMBER 12, 2002

BofA to Buy Stake in Mexican Bank

The U.S. bank will pay $1.6 billion for 25% of Santander Serfin to capture part of a fast-growing market.

By Lisa Ramsey

Bank of America Corp. said Wednesday that it will pay $1.6 billion to buy 25% of Mexico’s third-largest bank from Santander Central Hispano, following Wells Fargo & Co. into the fastest-growing banking market in North America.

The investment in Grupo Financiero Santander Serfin is Chief Executive Ken Lewis’ largest since taking over the No. 3 U.S.

Bank and is critical to a strategy of opening more accounts and making more loans to 35 million U.S. Latinos, some investors said. The group’s operating power is expected to jump 60% to $1.5 billion by 2007.

In Mexico, whose less than a quarter of households have a bank account, U.S. trade ties and low interest rates are expected to help the economy grow by 3% next year. That kind of growth has lured international banks, which control about 30% of Mexican banking assets.

A subsidiary of Grupo Financiero Santander Serfin, the country’s second-largest bank, for $1.1 billion. BBVA Holding, Spain’s biggest branch, in August spent $1.4 billion to buy Grupo Financiero Banamex.

José Angel Montano, an analyst at Grupo Financiero BBVA Bancomer, says the number of Mexican bank accounts doubles each five years, "There’s a huge potential here for every bank," he said.

US banks also are using their Mexican holdings as anchors in an effort to compete in the money transfer business, dominated by First Data Corp.’s Western Union. Mexican-Americans send about $10 billion a year to relatives in Mexico, generating about $1 billion in fees, Lewis said. Bank of America will buy Serfin to tap into an "enormous" market opportunity, he said.

The deal is expected to boost both banks’ earnings by 11% and "5% to 10% growth in profits," Lewis said. The bank also has a captive insurance company, which will sell its insurance products in Latin America.

The bank has a three-year plan to target Latino customers in its U.S. branches, including the creation of an "emerging Latino" segment, similar to the company’s existing "emerging market" and "emerging Latino" segments.

The bank will focus on serving low-income customers and those who do not have access to traditional banking services, including opening checking accounts, savings accounts, and credit cards.

The bank has also partnered with the local government in Mexico City to build a new branch in a low-income neighborhood, and has launched a mobile banking service to reach underserved communities.

Bank of America will hold its stake for at least three years, the banks said. After that, it has the option to sell the stake back to Santander or to invest. It will name two directors to the bank.

Bank of America has about 1,700 branches in the U.S. and 3,000 in Mexico, and about 75% of U.S. Latinos live in its service area. Most of the 250 branches in Mexico are planned for cities with growing Latino populations, such as Los Angeles and Miami.

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Geographic effects of NAFTA

- Canadian side
  - More cross-border investment
    - US FDI expands
  - More resource exports
    - Hydro, timber, oil & gas
  - Decline of manufacturing
  - Trade stable
  - Quebec depoliticized
Political Effects of NAFTA

- Perot throws US election (1992)
- Zapatista rebellion in Mexico (1994)
- Tory Party in Canada collapses (mid–1990s)
- Anti-globalization -- Seattle (1999)
- President Fox (PAN) elected (2000)
- PAN vs. PRD Presidential election (2006)
Into Latin America?

- **Free Trade Act of the Americas (FTAA)**
  - Extend NAFTA
  - Defeated 1998

  - Revived under Bush
  - Chile model
  - Now Colombia
Lula Raises the Stakes
By William Greider & Kenneth
THE NATION November 13, 2003
Cancún was the flashpoint where Lula’s ambitions collided head-on with American power. His diplomats helped organize the coalition of twenty-two developing nations that stood their ground in the WTO negotiations and did not yield to the usual pressure tactics from the United States, Europe and Japan. The talks collapsed, an emblematic victory for Lula in demonstrating that unity means power.
Strengthening old ties

MERCOSUR

- independent state
- dependent territory

- member
- associate member
- observer

CARICOM

- independent state
- dependent territory

- member
- associate member
- observer
III. Continental Blocs

A. European Union
B. Americas
C. Asia
Asian blocs

- Developing rapidly
  - Less formal than EU & NAFTA

- Around major powers
  - Japan
  - China
  - Russia
Traces of the Soviet Bloc

- USSR falls apart 1990
- Building new states
- ‘Commonwealth of Independent States’ (CIS)
- Relatively weak economies
Japan’s triangular trade

- Japan moves outward > 1985
  - By 1996, East Asia takes
    - ~45% of Japanese exports
    - ~45% of Japanese FDI
    - + bank loans
  - Japan hurt by East Asian crisis
    - Goes to China > 1997

- Triangle
  - Exports factories & machinery
  - Imports finished goods
  - Uses Asia as export platform to US

Figure 11.5
Japan’s Foreign Trade by Country/Region (2005)

1) Newly Industrializing Economies: Korea, Rep. of, Taiwan, Hong Kong SAR and Singapore.
Source: Ministry of Finance.
East Asian tensions

- Legacy of Japanese imperialism
- Japan vs. China
- Korea vs. Japan & China
- Taiwan vs. China
China

- China
  - Huge territory (3d largest)
  - Subcontinental country
    - Imperial legacy
    - Like US or Russia
Greater China?

- Chinese Diaspora
  - Hong Kong, Taiwan, Singapore
  - More investment into China than all others combined
Shanghai Cooperation Organization (2001)

- China, Russia, Kazakhstan, Kyrgyzstan, Uzbekistan & Tajikistan
- Pakistan, Iran, India and Mongolia want to join.
Regional trade or globalization?