A World That Knows No Boundaries?

The Geopolitics of Globalization and

the Myth of a Borderless World

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Introduction

Globalization is one of the premier buzzwords of the early 21st century. In its most general usage it refers to the idea of a world increasingly stretched, shrunk, connected, interwoven, integrated, interdependent, or less territorially divided economically and culturally among national states.

It is most frequently seen as an economic-technological process of time-space compression (Harvey 1989), a social modernization previously national in character scaled up to the world as a whole (Robertson 1992), or as shorthand for the practices of economic liberalism spontaneously adopted by governments the world over (Overbeek 1993; Desai 2002). I would not want to deny the truth in each of these perspectives. Rather, in seeing globalization as geopolitical I shall attempt to put it in the historical context of the growth of a world economy that has only recently become more globalized under largely American auspices.

As a new “master concept” globalization is often seen as replacing geopolitics (e.g. Blouet 2001). From this viewpoint, if globalization is all about a world that knows no boundaries, geopolitics was all about Great Powers and empires dividing up the world and imposing territorial control over it. But this is to draw too bold a line between a world that is and a world that was. Globalization as we know it today did not just come out of geographical thin air and it has definite geopolitical roots and biases. I begin the paper, therefore, by examining the geopolitical origins of globalization in American policies and practices during the Cold War but that have older roots in American history, particularly the experience and ideology of the “frontier.” This will then politicize the topic in direct opposition to the tendency to naturalize it in much recent writing, as if it were an entirely technological, sociological, or ideological phenomenon. This is important because it suggests that the form that recent globalization has taken is the result of political choices that can be reversed or redirected.

A theme common to much writing on globalization is that it represents a stark break with the geopolitics of the Cold War (and previous epochs). I argue that this is anything but the case. Indeed, the “free world” economy that was an invention of the US side in the Cold War is the mantra of the “new” globalizing economy. To understand contemporary globalization needs understanding the practices and ideas that laid its foundations in the period from the 1940s to the 1970s. In the second part of the paper, therefore, I identify those features of the "embedded liberalism" of the postwar period that helped lay the foundations for the post-1970s acceleration of globalization.

The third section endeavors to describe how this system began to erode in the 1960s and during the Nixon administration was replaced by the beginnings of a new "market-access regime" in which the roles of such international organizations as the IMF, World Bank, and GATT (later WTO) were revolutionized by devoting them to enforcement of a much more radical economic liberalism that served American economic interests. It is in this context that a new global economic geography has emerged in which there is a tension between continued state regulation of economic activities, on the one hand, and a world economy increasingly organized with reference to flows of capital and goods between sites in widely scattered locations. At the same time large parts of the world are increasingly left out of global economic development.

This recent transformation introduces the question of the meaning of the "geographical" in relation to the globalization of the world economy and the long-term tension between *territorial* and *interactional* (flow-based) modes for organizing capitalism. The main point is to dispute the idea that it is the global that is "new" in globalization as much as the changing geographical logic of the world economy. In other words, it is not its "globality" that is new but, rather, its combination of global networks and localized territorial fragmentation. Under the "previous" global, the world economy was structured largely (but never entirely) around territorial entities such as states, colonial empires, and geopolitical spheres of influence. The main novelty today is the increasing role in economic prosperity and underdevelopment of *cross-border flows* in relation to national states and to networks linking cities with one another and their hinterlands and the *increased differentiation* between localities and regions as a result of the spatial biases built into flow-networks. Rather than the "end" of geography, therefore, globalization entails its reformulation away from an economic mapping of the world in terms of state territories towards a more complex mosaic of states, regions, global city-regions, and localities differentially integrated into the global economy. There is a geopolitics of contemporary globalization, therefore, both with respect to its origins and with respect to its operation. Political and social boundaries have not simply disappeared; they are being reconstituted around and across long-established ones.

The Nature of US Hegemony

For many years, the division of the world into trading blocs and territorial empires limited U.S. economic and political influence. Powerful strains in US public opinion were also opposed to American involvement in foreign economic and political affairs. After World War II, however, an intensely internationalist American agenda, sponsoring free trade, currency convertibility, and international investment, was advanced in explicit counterpoint to the autarkic dogmas of Soviet Communism and as a response to the competitive trading blocs that were seen as partly responsible for the depression of the 1930s. The effort to design a "free world" order in the immediate postwar years laid the groundwork for the internationalization of economic activities in the 1960s that brought tremendous expansion in U.S. firms' investment overseas and the increased importance of trade for the U.S. territorial economy (Agnew and Corbridge 1995).

The basis to American hegemony and the creation of the world economy as we know it today lie in two features of the U.S. historical experience. First, America's own colonial past made territorial colonialism in the European style an ideologically difficult enterprise; U.S. institutions claimed their origins in colonial revolt rather than dynastic or national continuity. This is why, straight-facedly, American leaders can claim an innocence about apparent designs on controlling other places. Second, after the Civil War, an integrated national economy emerged that was increasingly dominated by large firms, and as they developed overseas interests, these firms were able to shape the American international agenda. I examine each of these points in turn.

America's Past

From the outset of colonial settlement on the Eastern seaboard of North America, "America" has been seen by the makers of American public culture—political leaders, writers, and educators—as the space where European settlers met an alien environment and by taming and absorbing it created the most powerful polity and plentiful cornucopia yet known to humanity. They created an American space out of what they saw as a pristine wilderness. From school textbooks to Western movies and political speeches, American identity is closely associated with wresting political-economic success out of a difficult environment and imprinting the values of the founders of the United States as the frontier moved westwards. Yet, "America" has also represented a set of universal ideas about political-economic and cultural organization. For example, the geography evoked by the American Declaration of Independence is neither continental nor hemispheric but universal. It is directed to "the earth", the "Laws of Nature and of Nature's God", and to all of "mankind". In this vision, "America" is seen as a model for humanity; a perfect model for any space. So, though exceptional in its own geographical experience, America has also been seen by many Americans as a role model for the rest of the world.

Spatial orientations are of particular importance to understanding America, whether this is with respect to foreign policy or to national identity. It could be argued that a geographical imagination is central to all national political cultures. Imagining a coherent territorial entity containing a group of people with a common attachment to that territory has been crucial in the making of all national states. However, if all nations are imagined communities, then America is the imagined community par excellence (Campbell 1992). The space of "America" was already created in the imaginations of the first European settlers en route to the "New World" as a space of openness and possibility. It was not constructed and corrupted by centuries of history and power struggles as was Europe. Even now, America is a country that is easily seen as both "nowhere" and "pastless", constructed as totally modern and democratic against a European (or some other) Other mired in a despotic history and stratified by the tyranny of aristocracy. The ideology of the American Dream, an ideology which stresses that anyone can be successful given hard work, luck, and unintrusive government, marks out the American historical experience as unique or exceptional. Narratives of the history of America as a country of migrants successfully seeking a better way of life provide practical evidence for this imagination. The enslaved Africans and conquered Indians who made constructing the New World possible are not surprisingly largely absent from this vision except as incidental characters or as barriers to be overcome.

The mindset of limitless possibility was reinforced by the frontier experience of individual social mobility, of the energy of a youthful country in contrast to the social stagnation and economic inequality of "old" Europe. Americans were free to set themselves up in the vast expanse of "empty" land available on the frontier, discounting the presence of natives whose self-evident technological and religious "backwardness" justified the expropriation of their land. All settlers were equal on the frontier, so the myth goes, and those who were successful succeeded due to their own hard work, not through any advantage of birth. Clearly there are historiographical problems with this national myth, not least the violent erasure of other people and their pasts that occurred as part of this geographical movement (see Shapiro 1997). However, the myth has long remained as a powerful aspect of American culture. The initial presumption was that as long as the frontier continued to expand America would flourish. This mindset remained influential beyond the physical expansion of the US across the continent as "the frontier" was reconfigured around the necessity to expand the "American way" and "American good" beyond American shores, especially in the years following the end of the Second World War when another power (the Soviet Union) offered a competing utopian rendering of political economy. Importantly, the frontier story is not simply an elite construction told to the population at large but one retold and recycled through a variety of cultural forms: most obviously through mass education, but more importantly through the media and in popular culture (e.g. Slotkin 1992).

The "frontier" character of the American economy—expanding markets for goods and opportunities for individuals beyond previous limits—figures strongly in the American stimulus to contemporary economic globalization. This is itself tied to a particular cultural image: the ethos of the consumer-citizen (Cross 2000). The American position in the Cold War of defending and promulgating this model ran up against the competing Soviet model of the worker-state. The resultant geopolitical order was thus intimately bound up with the expression of American identity. This was spread through ideas of "development," first in such acts as the Marshall Plan to aid the reconstruction of Europe immediately after the Second World War, and then in the modernization of the "Third World" following the elements of a model of American society pushed most strongly during the short presidency of John Kennedy (1961-63).

The creation of a global economy under American auspices reflects the dominant ideology about the founding of the country and the essence of its national identity and character. Twentieth century economic globalization has been linked to two important political-economic principles which have been closely associated with the American frontier ethos and its realization first in continental expansion and later in global power (Williams 1969; Agnew 1999). First was the view of the expansion of the marketplace as necessary to national political and social well being. Second was the idea that economic liberty or independence is by definition the foundation for freedom per se. The American Constitution and early interpretations of it combined these two principles to create a uniquely American version of democratic capitalism. On the one hand the federal government underwrote expansion into the continental interior and stimulated interest in foreign markets for American products but, on the other hand, the federal sub-units (the states) and the division of power between the branches of the federal government (the Congress, the presidency, and the Supreme Court) limited the power of government to regulate private economic activity. The Constitution is open to contrary interpretations on the relative powers of both federal branches and tiers of government. Down the years, however, the federal level has expanded its powers much more than any of the Founders, including its greatest advocate, Alexander Hamilton, could have foreseen.

The American International Agenda

The emerging national economy of the late 19th century was based in large part on the growth of the first capitalist consumer economy. American businesses pioneered in advertising and salesmanship as ways of bringing the population into mass markets for manufactured goods and processed foodstuffs. Relative to the rest of the world, American growth in manufacturing output was incredible. By 1913 the United States was to account for fully one-third of the world's total industrial production. From the 1870s on much of this growth was managed by large industrial firms and investment banks whose American markets generated less and less profit at ever greater expense. It was in the period 1896-1905, however, that the US saw the greatest spate of mergers and business consolidation in its history such that by 1905 around two-thirds of the manufacturing capital of the United States was controlled by 300 corporations with an aggregate capital worth of $7 billion (in 1992 dollars). That the 1890s also saw the peak of a major economic depression with high unemployment and increasing political unrest meant that there was added incentive to look for markets beyond the territorial limits of the United States itself.

It was in the context of the economic downturn of the 1890s that the historian Frederick Jackson Turner (1920) famously wrote of the impact of the frontier on American identity and culture. Celebrating the liberating and invigorating powers of the expanding frontier, Turner feared for the consequences of the "closing of the frontier" when all land was taken and the American urge for growth and movement would consequently cease. Turner envisaged this as an immediate concern. Renewed expansion was required in order to lower unemployment, reintegrate American labour into the American Dream and thus reduce the appeal of subversive politics. The issue of American expansion was not only an economic issue then; given that a moving frontier was the source of America's uniqueness—its Manifest Destiny, as it was first called in the 1840s—and that the US could only achieve its full potential if it continued to expand. Turner insisted upon the need for an end to American isolationism with the closing of the internal frontier, and for the development of "a vigorous foreign policy … and for the extension of American influence to outlying islands and adjoining countries …" (Turner 1896:289).

The American economic expansion after the 1890s was only intermittently territorial, and, with the exception of the Spanish-American War of 1898-1900, largely in its immediate vicinity, in the Caribbean and Central America. Otherwise it was resolutely *interactional*, focused on the possibilities of and proceeds from foreign capital investment. Unlike business in the other industrial capitalist countries, American business favoured direct rather than portfolio investment and conventional trade. Economic advantages previously specific to the United States in terms of economic concentration and mass markets, such as the cost effectiveness of large factories and economies of process, product, and market integration, were exported abroad as American firms invested in their subsidiaries. A new pattern of foreign direct investment designed to gain access to foreign markets for large firms was coming into existence under American auspices. American leaders could preach against European territorial colonialism as American businesses created a whole new phenomenon of internationalized production. Unknowingly, these businesses were laying the groundwork for the globalization of production of which American governments later became the main sponsors.

The expansion beyond American shores was never simply economic in motivation. There was a mission, contentious but unmistakable, to spread American values. Pushing American ways of economic and political organization was more than simply a mechanism for increasing consumption of American products. But the mission to spread American values did often lead to the consumption of American products, later epitomized in the global audiences for MTV, the near-universal popularity of Coca-Cola, and global consumption of McDonald's hamburgers. The products represented America to the world at large (Twitchell 1999). The reach into the global arena continued throughout the 20th century with the exception of the Depression of the 1930s which encouraged a flurry of economic protectionism.

The "Free World" Economy

In 1945, the completeness of the American-Anglo-Soviet victory over Nazi Germany and Imperial Japan had two immediate consequences. First, Soviet influence extended over Eastern Europe and into Germany. When the war ended Soviet armies were as far west as the River Elbe. This encouraged both a continuing American military presence in Europe and a direct confrontation with the Soviet Union as a military competitor and sponsor of an alternative image of world order. This was quickly to find its clearest expression in the geopolitical doctrine of 'containment', whereby through alliances and military presence the United States government committed itself to maintaining the political status quo established in 1945. The American development of nuclear weapons and a demonstrated willingness to use them meant that the security of the United States itself was beyond doubt (Art 1991). Indeed, the relative geographical isolation of the United States from most of its historic adversaries has always been an American advantage; if one discounts threats from nuclear armed terrorists or states that reject the 'norms' of inter-state behaviour. What was in doubt in 1945-47 was the allegiance of other countries to the United States and its political-economic model.

Second, in economic and political terms the United States was without any serious competition in imposing its vision of world order on both its vanquished foes and most of its recent allies. Unlike after the First World War, when the United States turned its back on hegemony, this time there seemed to be no alternative. Europe and Japan were devastated. The reading of the origins of the Great Depression and the Second World War that predominated in the Roosevelt and Truman administrations suggested that the continued health of the American economy and the stability of its internal politics depended upon increasing rather than decreasing international trade and investment (Wachtel, 1988). Europe and Japan had to be restored economically, both to deny them to the Soviet Union and to further American prosperity. Morgenthau's early-1940's plan for the 'ruralization' of Germany was quickly scrapped in 1945.

This is not to say that there was no opposition to the 'internationalist' position. Indeed, the Republican majorities in the U.S. Congress in the immediate postwar years were generally as sceptical of the projection of the U.S. New Deal experience of government economic intervention overseas as they were of its application at home. U.S. forces demobilized rapidly after 1945. Only after 1947, with the growing fear of the Soviet Union as both foreign enemy and domestic subversive, did an internationalist consensus begin to emerge.

The period from 1945 to 1970 was one in which this consensus played itself out. The United States government set out in 1945-47 to sponsor a liberal international order in which its military expenditures would provide a protective apparatus for increased trade (and, if less so, investment) across international boundaries. These would, in turn, redound to domestic American advantage. The logic behind this lay in the presumed transcendental identity between the American and world economies. The expansion of one was seen as good for the other. Achieving this involved projecting at a global scale those institutions and practices that had already developed in the United States, such as: Fordist mass production/consumption industrial organization; electoral democracy; limited state welfare policies; and government economic policies directed towards stimulating private economic activities (Maier 1978; Rupert 1990). Ruggie (1983) calls the normative content of these policies 'embedded liberalism' because they were institutionalized in such entities as the IMF, the World Bank, the GATT, and the Bretton Woods Agreement.

Three features of the American economy were particularly important in underpinning the internationalism of American policy. The first was economic concentration. Continuing an intermittent trend from the 1880s, in almost every American industry control over the market came to be exercised by ever fewer firms. Expanding concentration was accompanied and encouraged by the growth of government, especially at the federal level. Much of this was related to military expenditures designed to meet the long-term threat from the Soviet Union. These trends were reinforced by what became the main challenge to the perpetuation of the model within the United States: the direct investment of U.S. corporations overseas. Much of this was in other industrialized countries. The axis of capital accumulation now ran through the core rather than between core and periphery. In the short run the repatriated profits benefited the American economy. But by the late 1960s, as domestic technology and management followed capital abroad, traditional exports were replaced by foreign production of U.S. affiliates to the detriment of employment in the United States. American mass consumption was no longer fully supported by the relatively high wages of its workers in mass production. This has come to define the crisis or impasse facing the American model in the United States (Agnew 1987). What Arrighi (1990: 403) calls a Free Enterprise System—'free, that is, from ... vassalage to state power'—has come into existence to challenge the inter-state system as the singular locus of power in the international political economy.

The spread, acceptance, and institutionalization of the American model was by no means a preordained or easy process. The key institutions and practices spread rapidly in the late 1940s and early 1950s. They were eventually accepted in all of the major industrialized countries either through processes of 'external inducement' (Marshall Aid would be the classic example) and coercion (the British loan of 1946), or through direct intervention and reconstruction as in West Germany and Japan. In all cases, however, there was considerable compromise with local elites over the relative balance of growth and welfare elements in public policy (Ikenberry and Kupchan 1990).

The key elements have been:

(1) Stimulating economic growth *indirectly* through fiscal and monetary policies;

(2) Commitment to a unitary global market based on producing the greatest volume of goods most cheaply for sale in the widest possible market by means of a global division of labour;

(3) Accepting the United States as the home of the world's major reserve-currency and monetary overseer of the world economy (the Bretton Woods system, 1944-71; dollar-based floating exchange rate system, 1971-);

(4) Unremitting hostility to 'communism' or any political-economic ideology that could be associated with the Soviet Union; and

(5) The assumption of the burden of intervening militarily whenever changes in government or insurgencies could be construed as threatening to the political status quo established in 1945 (the Truman doctrine).

Not only international relations, therefore, but also the domestic social order of other states was at issue in constituting the geopolitical order of the Cold War period. All states ideally were international ones; open to the free flow of investment and trade (Wood 1986).

It is little exaggeration to claim that in the five decades after 1945 American dominion was at the centre of a remarkable explosion in 'interactional' capitalism. Based initially on the expansion of mass consumption within the most industrialized countries, it later involved the reorganization of the world economy around a massive increase in trade in manufactured goods and foreign direct investment. But this was not a recapitulation of the previous world economy. Abandoning territorial imperialism, 'Western capitalism ... resolved the old problem of overproduction, thus removing what Lenin believed was the major incentive for imperialism and war' (Calleo 1987, 147). The major driving force behind this was the growth of mass consumption in North America, Western Europe, and Japan. The products of such industries as real estate, household and electrical goods, automobiles, food processing, and mass entertainment were all consumed within (and, progressively, between) the producing countries. The 'Keynesian' welfare state helped sustain demand through the redistribution of incomes and purchasing power. The old 'cross-over' trading system of the colonial era was no longer needed. If before the Second World War the prosperity of industrial countries depended on favourable terms of trade with the underdeveloped world, now demand was stimulated at home.

Moreover, until the 1970s the income terms of trade of most raw materials and foodstuffs tended to decline. This trend had negative effects on the economies of the Third World as a whole, but it stimulated some countries to engage in new models of industrialization which later paid off as they found lucrative export markets for their manufactured goods. The globalization of production through the growth of these Newly Industrializing Countries (also aided by US Cold War military expenditures in the case of countries such as South Korea and Taiwan) and the increased flow of trade and foreign direct investment between already industrialized countries finally undermined the geographical production/consumption nexus (often referred to as 'central Fordism') that was the leitmotif of the early postwar decades.

A vital element in allowing the U.S. to have such a dominant presence within the world economy was the persisting yet historically episodic political-military conflict with the Soviet Union. This served both to tie Germany and Japan firmly into alliance with the U.S. and to define two geographical spheres of influence at a global scale. For a long time this imposed an overall stability on world politics, since the U.S. and the Soviet Union were the two major nuclear powers, even as it promoted numerous 'limited wars' in the Third World of former colonies where each of the 'superpowers' armed surrogates or intervened themselves to prevent the other from achieving a successful 'conversion' (O'Loughlin 1989). For all their weakness, however, Third World and other small countries could not be treated as passive objects of imperialist competition. They had to be wooed and often they resisted. This limited the ability of the superpowers to extend their influence. Unlike in the previous period, the world map was no longer a 'vacuum' waiting to be filled by a small number of Great Powers. But the boundaries and integrity of existing states were protected by the military impasse between the superpowers. Any disturbance of the status quo threatened the hegemony of each within its respective sphere of influence.

In the end, the Cold War geopolitical order came undone with the collapse of the Soviet Union. But this was not the only sign of an old order in demise; the Free-World economy was also in disarray as mounting stagflation, indebtedness and balance of payments disequilibria clearly and successively indicated. Indeed, US hegemony had been in trouble since around 1960 when the London gold crisis showed the potential weakness of the gold-dollar exchange mechanism at the heart of the Bretton Woods system (Triffin 1960; Cafruny 1990). By 1971, when the Nixon Administration abrogated the Bretton Woods Agreement, the US faced a declining rate of economic growth and needed recourse to a competitive devaluation of the dollar. Thus, and ironically, the explosion of globalization that followed has been based on the explicit pursuit of US national economic interest without much by way of either negotiation or agreement with other states. US governments since 1971 have been increasingly unilateral, combining an economic focus on using the strength of the dollar to export the costs of US fiscal policies (in particular, the twin balance of payments and federal deficits) and a political focus on coercing recalcitrant states that are seen as threatening to either or both globalization and US hegemony. In other words, market-based globalization has been increasingly underwritten by US neo-imperialism, with US governments disciplining others fiscally and monetarily even when profligate themselves and threatening military intervention here, there, and everywhere in pursuit of security threats to the US and its economy.

The "Market-Access" Regime

Wide acknowledgment that the world economy has undergone a fundamental reorganization since the 1970s has not meant that there is agreement as to how and why this has happened. Agreement is confined only to the sense that the world economy has entered a phase of flexible production and accumulation in which business operations around the world are increasingly taking the form of core firms (often transnational in scope) connected by formal and informal alliances to networks of other organizations, both firms, governments, and communities (also sometimes known as disorganized capitalism). The paradox of this trend, and hence why it has generated intense debate, is that while networking allows for an increased spanning of political boundaries by concentrated business organizations it also opens up the possibility of more decentralized production to sites with competitive advantages. At the same time, networks take on different forms with different sectors and in different places.

One account of the source of this shift in the world economy from big, vertically-integrated firms organized largely with reference to national economies to globe-spanning networks of production and finance emphasizes the declining rates of productivity and profits of major corporations in the years between 1965 and 1980. Profit rates, averaged across the seven largest national industrial economies and defined as net operating surplus divided by net capital stock at current prices, declined in these years in the manufacturing sector from 25 percent to 12 percent. Across all sectors, the average rate of profit fell from 17 to 11 percent (Glyn et al. 1989: 53). There was considerable variability in rates of profit in the 1950s and 1960s, however, so the story of a long boom (or 'golden age') shared by all industrialized countries followed by a sudden collapse is open to question (Webber and Rigby 1996). What appears to have happened is that the period from 1960 to the early 1970s was one of generally rising profit rates. Thereafter, but at different rates of decline and following different trajectories, rates of profit began to decline. These seem tied more to declining rates of productivity (efficiency in the use of equipment and resources) than to increasing labour costs. Although there has been a recovery of rates of profit in some economies (such as the US) since the mid-1980s, this seems fuelled in part by suppressing wages and other labour benefits more than by returns to new technologies (such as computers) or new investment (Webber and Rigby 1996, 325). It also reflects the results of the 'global turn' taken most aggressively by large (and other) American firms since the 1970s. Individual cases, such as General Motors or Ford, suggest as much. Each has come to depend increasingly on the profitability of its worldwide ventures to compensate for the loss of market share and profitability in the United States.

The "Market-Access" Regime

Globalization is partly about firms attempting to cash in on the comparative advantage enjoyed in production by other countries and localities and gain unimpeded access to their consumer markets. But it is also about governments wanting to attract capital and expertise from beyond their boundaries so as to increase employment, learn from foreign partners, and generally improve the global competitive position of "their" firms. The combination of the two has given rise to a "market-access" regime of world trade and investment (Cowhey and Aronson 1993). This has eroded the free-trade regime that had increasingly predominated in trade between the main industrial capitalist countries in the post-World War II period. In its place is a regime in which acceptable rules governing trade and investment have spread from the relatively narrow realm of trade to cover a wide range of areas of firm organization and performance.

Six "pillars" of this system can be identified. The first is a move away from the dominance of the American model of industrial organization in international negotiations towards a hybrid model in which there is less emphasis on keeping governments and industries "at arm's length" and commitment to encouraging inter-firm collaboration and alliances across as well as within national boundaries. In this new model foreign firms are allowed to contest most segments of national markets, except in cases where clearly demarcated sectors are left for local firms. A second pillar involves the increased cooperation and acceptance of common rules concerning trade, investment, and money by national bureaucracies with an increasingly powerful role also played by supranational and international organizations (such as the European Commission for the EU and the World Trade Organization, the replacement institution for the GATT, respectively). Two consequences are the blurring of lines of regulation between "issue areas" (such as trade and foreign direct investment, which increasingly can substitute for one another) and the penetration of "global norms" into the practices of national bureaucracies. The third pillar is the increasing trade in services beyond national boundaries and the concomitant increased importance of services (banking, insurance, transportation, legal, advertising, etc.) in the world economy. One reason for this is that high-tech products (computers, commercial aircraft, etc.) contain high levels of service inputs. Servicing the "software" that such products require has led to an explosion in producer services. Another is that producers are demanding services that are of high quality and competitively priced. They can turn to foreign suppliers if appropriate ones are not available locally. Banking and telephone industries are two that have experienced a dramatic increase in internationalization as producers have turned to non-traditional (frequently foreign) suppliers. Fourth, international negotiations about trade and investment are now organized much more along sectoral and issue-specific lines than was the case in the past. One rule no longer fits all. But many of the new rules are essentially ad hoc, rather than formal. This has opened up the possibilities of bilateral and minilateral (more than two parties, but not everybody) negotiations but at the expense of the greater transparency that would come from a consistent multilateral focus.

The final two pillars concern the content of the rules of the market-access regime. One is equivalence today between trade and investment, due largely to the activities of transnational corporations in expanding the level of foreign direct investment to astronomical highs. Local content rules about how much of a finished product must be made locally (within a particular country) and worries about the competitive fairness of firm alliances, however, also led to new efforts by governments in industrialized countries to regulate the flows of foreign investment. “Levelling the playing field,” to use the American parlance, has meant pressure and counter-pressure between governments to ensure at least a degree of similarity in regulation (in, for example, cases of presumed monopoly or anti-trust violations). The final pillar involves the shift on the part of firms from a concern with national or home-base comparative advantage to a concern with establishing global or world-regional competitive advantages internal to firms and their networks. This reflects the overwhelming attractiveness of “multinationality” to many businesses as a way of both diversifying assets, increasing market access, and enjoying the firm economies of scale that come from supplying larger markets. At the same time plant economies of scale (reductions in unit costs attributable to an increased volume of output) have tended to decease across a wide range of sectors, as noted first by Bain (1959). This means that large firms can enjoy firm economies of scale without having just a few large factories. They are not restricted by the lure of high average plant economies to one or few production locations. Production facilities can be located to take advantage of other benefits that come from operating in multiple locations, particularly those offered by foreign sites.

The new transnational order has four important consequences that set it apart from earlier geopolitical epochs, such as the Cold War. First, foreign direct investment among major industrial countries has increased at a faster rate than has the growth of exports among them. The ties that bind industrialized economies together are those of investment more than trade. In the 1980s and early 1990s, the rate of growth of foreign direct investment in the world economy has been three times that of the growth of world exports of goods and services (Dicken 1992).

Second, national trade accounts can be misleading guides to the complex patterns of trade and investment that characterize the new global economy. Perhaps 50 percent of total world trade between countries as of 2000 was trade within firms. Further, more than half of all trade between the major industrial countries is trade between firms and their foreign affiliates. A third of U.S. exports go to American-owned firms abroad; another third goes from foreign firms in America to their home countries. And because the new global trading networks involve the exchange of services as much as the movement of components and finished goods, many products no longer have distinctive national identities (Reich 1991b). The U.S. 1986 trade deficit of $144 billion thus becomes a trade surplus of $77 billion if the activities of U.S.-owned firms outside the United States and foreign-owned firms in the United States are included in the calculations (Julius 1990).

Third, as the U.S. territorial economy loses manufacturing jobs and shares of world production to other places, the global shares of its firms are maintained or enhanced. As the U.S. share of world manufactured exports went from 17.5 percent in 1966 to 14.0 percent in 1984, American firms and their affiliates increased their shares from 17.7 percent to 18.1 percent (Lipsey and Kravis 1987). This leads to the question, "Who is US?" in relation to government policies that can favour U.S. firms rather than the U.S. economy (Reich 1991a). From this point of view, helping "foreign" firms locate in the United States benefits the U.S. territorial economy more than helping "American" firms, which may be owned by Americans or head quartered in the United States but have most of their facilities and employees located overseas. As long as the American economy is growing, through increased employment and productivity, these paradoxes will exact little political price. But under recession and as US governments reconstruct the tax code to benefit (nominally) US businesses at the expense of the median taxpayer (as with the G.W. Bush administration) they can be expected to receive more attention.

Fourth, the US government remains as the "enforcer" of last resort to keep the entire market-access regime in place but often in a more clearly neo-imperial capacity in relation to purported allies than during the Cold War. This role can take on several different forms that have varied across administrations and in response to different situations from the 1970s to the present. One is in the form of military intervention to either impose political stability or remove recalcitrant governments. A second is to oversee and underwrite financial bailouts for countries facing either bankruptcy or serious monetary crisis. A third is to publicize and recruit elite supporters around the world for present globalization (in the shape of the market-access regime) as both inevitable and positive. Whether or not US governments can afford to continue policing globalization when its benefits do not proportionately trickle back to the US territorial economy and whether or not the rest of the world will continue to indulge US attempts at using globalization for US ends are probably the major questions facing the long-term sustainability of the market-access regime (Wade 1998-99; Soros 1998-99; Brenner 2002; Kupchan 2002). A time may be approaching, however, when even if the US role is much reduced the institutionalization of globalization in various global forums might augur its continuation without domination by US governments (compare Agnew and Corbridge 1995, Chapters 7 and 8 with Hardt and Negri 2000).

The Geography of Globalization

The Cold War era laid the groundwork for what we see around us in the early 21st century. In particular, existing territorial states have become less and less 'full societies.' At one and the same time they are both too large and too small. They are too large for full social identities and many real economic interests. But they are also too small for many economic purposes. They are increasingly 'market sectors' within an intensely competitive, integrated yet unstable world economy. This is the paradox of fragmentation in the context of globalization that many geographers have noted about the world since the 'slow end' of the Cold War in the 1980s. Though frequently seen as separate processes they are in fact related aspects of a geopolitical order that has been slowly emerging. In this context, therefore, interstate boundaries begin to take on a different significance and meaning from previously.

Globalization

British hegemony in the nineteenth century made trade more free and independent. American hegemony during the Cold War went a step further in promoting the transnational movement of all of the mobile factors of production: capital, labour and technology. Free trade could always be limited when production was organized entirely on a national basis. But today production as well as trade moves relatively easily across national boundaries. People are also moving in large numbers but face much greater barriers to movement than capital and trade.

The evidence for this qualitative shift in the character of the world economy and the diminution in the economic importance of existing territorial states as the basic units of account is of various types. First of all, since the 1950s but at a rapidly expanding pace in the 1980s and 1990s, world trade has expanded at a rate well in excess of that of earlier periods (e.g. Rogowski 1989, 88). Most of this growth in trade has occurred in the already industrialized regions of the world. It owes much to the declining importance of transportation costs and to institutional innovations such as the GATT (now the World Trade Organization) and the European Union. In a world of large-scale trade there is a premium placed upon maintaining openness and balance rather than territorial expansion and military superiority (Rosecrance 1986).

Second, transnational firms are major agents in stimulating a more open world economy. For example, as I mentioned previously, even as the US territorial economy's total share of world exports shrank by one quarter between 1966 and 1984, US-based firms still accounted for the same proportion of world exports because of their worldwide operations (Lipsey and Kravis 1987).

Third, even the relatively protectionist Japanese economy, the second largest in the world after the US, is increasingly internationalized and subject to stresses generated abroad (Higachi and Lauter 1987). For example, the 'meltdown' of various Asian economies in 1997-98 had negative effects on Japan because of heavy Japanese involvement in that region through exports, investment and production.

Fourth, the world financial system is increasingly globalized. The demands of institutional investors, such as pension funds and insurance companies, for more diversified portfolios, the deregulation of national stock markets and the floating of currency-exchange rates, have led to a transnationalization of finance. To serve their worldwide clienteles, many financial markets now operate around the clock and without the close government supervision that was once the case.

Fifth, various institutions and new social groups have emerged as agents of the globalization of production and exchange. The IMF and the World Bank, for example, have become both more powerful and more autonomous of their member states than was intended when they were founded in the 1940s. Private organizations such as the Trilateral Commission and the World Economic Forum attempt to build an internationalist consensus among leading businessmen, journalists and academics from the United States, Europe and Japan (Gill 1990). Some commentators see the progressive growth of an international 'bourgeoisie' or class of the managerial employees of transnational firms whose loyalties are to those firms more than to the states from which they come (Sklar 1976).

Sixth, and finally, boundaries between states are either slowly dissolving for a range of flows, as in the case of states within the European Union, becoming opportunities for cross-border collaboration, as with the so-called Euregios between adjacent European countries and the various forums on the Irish border emanating from the Good Friday Agreement of 1998, or shifting their effective locus from the edges of states to the airports and port cities where most migrants, refugees, and asylum seekers attempt entry. For most people, however, interstate boundaries retain a general significance with access to citizenship rights and political identity that they have begun to lose for businesses (e.g. Newman 1998; Anderson and Bort 1999). Indeed, this is a major source of conflict in many relatively wealthy countries such as the United States, France, and Britain as immigrants from poor countries become the target of political movements anxious to reinstate border controls to re-establish national cultural homogeneity. One consequence of the terror attacks of 11 September 2001 in the United States has been a "re-bordering" of the country even as the economy still depends on massive inflows of capital and goods from outside. But imposing a simple "inside-outside" set of boundaries on the country in the face of the imperatives of globalization will be no easy task.

This new world economy is neither inherently stable nor irreversible. In particular, total levels of world trade and flows of foreign direct investment could be limited by the growth of world-regional trading blocs, such as the European Union and NAFTA, which divert trade and investment into more protected circuits and reduce the global flows that have expanded most in recent years, by the failure of many parts of the world to achieve benefits from globalization, and by the difficulty of reforming international institutions (from the UN system to the IMF and the World Bank) to make them more open and democratic (James 2001).

Fragmentation

Paralleling economic globalization has been growth in within-state sectionalism, localism, regionalism and ethnic separatism. This growing fragmentation seems to have two aspects to it. One is the redefinition of economic interest from national to regional, local and ethnic-group scales. The other is the questioning of political identity as singularly a phenomenon of existing states. The first of these is the direct result of the breakdown of the national economy as the basic building-block of the world economy (Scott 1998). Economic restructuring has involved a collapse of regional-sectoral economic specialization in established industries (cars in Detroit, steel in Pittsburgh, etc.) and the decentralization of production to multiple locations, including many in other states. At the same time, markets are less and less organized on purely national grounds. One important political consequence has been a geographical redefinition of economic interests. Local areas are now tied directly into global markets where they must compete for investment with other localities and regions (e.g. Le Galès and Lequesne 1998). Meanwhile, the economically stimulative and regulative activities of national governments have both weakened and become less effective. Geared towards a national economy that has fragmented into regional and sectoral parts, government policies can no longer shield local communities or ethnic groups from the impacts of competition or readily redistribute resources to declining or poorer areas. The net result has been a substantial upswing in income inequalities between and within countries if in a context of overall rising incomes at a world scale (accounted for particularly by the spectacular economic growth of China and, to a lesser extent, India). If anything, the trend in within-country inequalities (across income categories) has been even greater than that between countries. In other words, relatively more of total global income inequality is now accounted for within countries than between them although between country differences have also increased (see, e.g. Pritchett 1997; Galbraith 2002).

The other aspect of fragmentation has been encouraged by the crumbling of national economies, but relates more to the emergence of new political identities often based on old but revitalized ethnic divisions (e.g. Herb and Kaplan 1999). The past twenty years have seen the proliferation of political movements with secessionist or autonomist objectives. In Western Europe this trend can be related to the growing redundancy of national governments and increasing levels of relative deprivation between regions and ethnic groups. In Eastern Europe and the former Soviet Union the assertion of ethnic identities has more to do with the demise of strong national governments, the exhaustion of state socialism as an ideology that incorporated ethnic elites, and the settling of old political scores from the distant past. In Africa, and to a degree elsewhere, economic development and nation-building have been sacrificed, after the immediate euphoria of independence and the stasis imposed by the Cold War, to ethnic and regional interests seeking their own futures in a world in which state powers, weak as they were, are increasingly co-opted by international institutions such as the IMF and the World Bank, and can no longer guarantee a return on investment in state legitimacy. Boundaries between regions and localities within countries are increasingly challenging the boundaries that appear on the world political map as the more meaningful ones from the perspective of everyday social life for many people. In the Sudan, for example, the north-south divide is more important politically than that between Sudan and neighbouring states. In Ireland, while the border between north and south maintains its symbolic political importance, effectively it is the borders between neighbourhoods in cities such as Belfast and the economic gap between Dublin and the rural far west of Ireland that are more important in people's daily lives.

Conclusion

The history of contemporary globalization is not simply the result of technological change, the spread of modernity, or the attraction of liberal economics. All of these changes could have taken place without the emergence of the particular geographical logic that marks the present world economy. This logic is traceable to the dominant influence exerted on the world economy over the past fifty years by a succession of US governments putting into practice on a world scale, and in the face of a variety of countervailing powers, an ideological disposition and a set of policies initially developed within the United States itself.

This "American project" has gone through two principal phases since World War II, when the US emerged as one of the main victors. In the first, Bretton Woods phase, the US government served as the global lender-of-last-resort, instituted a number of international economic and political organizations for multilateral management of the world economy, and integrated a free world economy through organizing alliances against its major adversary: the Soviet Union. By the 1960s the first part of this system was in serious trouble from an American perspective. Under the Bretton Woods system US governments could not devalue the US$ to stimulate US national exports and national economic growth. Ironically, therefore, the more open, free-wheeling world economy that came into existence beginning in the 1970s had its origins in the self-serving actions of a US government. The market-access regime for trade and foreign direct investment that has replaced the old Bretton Woods system has relied on speeding up the world financial system, breaking up national economies into distinctive geographical parts, using the Bretton Woods institutions (particularly the IMF and the World Bank) to discipline states following non-conforming economic policies, and having the US as enforcer of global norms of political and economic conduct even if the fiscal consequences for the US territorial economy are grave indeed. Whether the geopolitics of current globalization is sustainable, therefore, is very much open to question.

Notes

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