Lecture 1

Globalization:
- Cultural: homogenization
- Economic: Rise of global markets
- Geographic: Compressed time and space
- Institutional: Speed of universal arrangements
- Political: Growing cooperation and coordination

Trade vs multinational activity:

Trade: International purchases and sales of final goods and services and intermediate goods.
- Inter-firm (between different firms)
- Intra-firm (between subsidiaries of the same firm)

Multinational activity: Establishment of foreign branches/ acquisition of foreign firms.
- Horizontal: serving foreign markets directly (producing and selling to customers abroad), substitute for export
- Vertical: sourcing from abroad (intermediate, raw materials, services): substitute for importing

FDI: Long term investment in another country leading to a significant degree of control and influence on the foreign management. (most commonly used indicator of multinational activity)
Not all funds used for multinational financing are included in FDI (funds raised locally) and not all FDI is used to finance real economic activity (Bermuda islands, finance flows out to islands, not an investment, just saving tax money)

Economic Geography: Where on the earth is economic activity taking place.
Locations of activity are not fixed over time but change as economic structure changes, new technologies, markets, industries.

The World Development Report (WDR) 2009 focuses on three aspects of economic geography:

1. **Density**: economic activity per unit of land (density in one country not evenly distributed (bumpy). A good proxy is population density.

   - Disparities in living standards between high and low density increases when urbanization increases (easier to supply services, higher wages in industrialised areas, better infrastructure)
   - Then decreases (convergence): services become available in low density areas →migration from lagging to leading areas (labour supply/demand) → convergence in real wages

2. **Distance** (between dense and less dense places): Distance from places of high economic density → aerial distance, infrastructure, factor mobility (access to markets).
   - Reducing distance is important for reducing disparities in living standards.

    - Providing transportation infrastructure facilitates market access, beneficial spillovers, and labor mobility.
    - Good market access implies higher profits and real wages.
    - Labor mobility promotes convergence in real wages.
- Openness to trade and capital flows benefit leading areas more than lagging areas and hence tend to increase disparities, but also offer opportunities for faster convergences
- Distance to international markets rather than local markets becomes more important to provide information about spatial disparities

3. **Division** (between countries that impedes interaction): restrictions on free flow of goods, capital, people and ideas (thick borders).
    - Openness to trade and international capital flows benefits leading areas more than lagging areas and hence tend to increase spatial disparities. But, they also offer opportunities for faster convergence.
    - Distance to international markets rather than local markets becomes increasingly more important for determining regional disparities.
    - Wealthier countries have thinner borders / remoteness, wars, cultural differences thickens borders.
    - Economic development spreads across neighbouring regions.
    - Interaction in global markets fosters economic development and prosperity.

Conclusions:

- Distribution of economic activity partially determined by physical geographic conditions. Economic development fosters further concentration in economic activity
- Distribution of economic activity greatly affects development prospects of poor countries
- As new regions of economic density emerge (eg. Due to emergence of new markets or technologies) development prospects of other regions change.