CHAPTER 1

WHY IS GEOGRAPHY IMPORTANT IN A GLOBALIZING WORLD?

Globalization is not only a feature of our time, but also a trend that has unfolded over a longer historical horizon. The ancient Roman Empire can be regarded as an undeniably globalized arrangement, unifying a major part of the world as it was known at that time. Major milestones paving the way to globalization have included the great geographic breakthroughs, from the discovery of the Americas to Magellan’s first voyage around the world, and, much later, the expeditions to discover the unknown internal territories of various continents up until the 19th century. The unquestionable milestones of globalization were the colonial empires of the 19th century that spanned most of the world, among which the largest, the British Empire, covered 22% of the world’s territory and constituted 20% of its population. It was held together in a unified administrative and economic framework when it was at its peak in 1922. Although large empires have disintegrated, with the United States and Russia being the only exceptions, unification has picked up speed and spread at a pace that was previously unfathomable.

Today, human society and the economy along with it have been radically transformed in the wake of globalization. The integration and the rise of networks within the global economy is unfolding at an accelerating pace from one decade to the next. The elimination of the barriers within the economy, the global unification of standards, and the global homogenization of consumption habits have given rise to a global economy that is increasingly becoming a unified whole and behaving like a single unit. This unification is also apparent in the
global networks maintained by major financial institutions, spanning global hubs from Hong Kong to New York, and from London to Buenos Aires, allowing capital to flow freely between the different regions of the world. Therefore, it is no surprise that the role of geographic location has also been radically transformed in this new economic and social structure. In fact, the significance of geographic location and physical distance seems to be disappearing completely. In the wake of falling transportation costs and the extended physical reach of technologies, distances are shortening and space is becoming ‘denser’.

The end of geography? – O’Brien was wrong

In the early 1990s, British economist Richard O’Brien published his book, *Global Financial Integration*. This provided an analysis of the global financial system, and instantly made O’Brien the central figure in the debate on the role of location within our globalized world. O’Brien argued that even at the time of writing his book, tens of billions of dollars were trading hands on international money markets and, likewise, tens of billions of dollars could be transferred from one point of the world to another in a matter of mere seconds thanks to modern information technology. O’Brien predicted that “a state of economic development where geographical location no longer matters” was not far away.

Today, we can ascertain beyond any doubt that O’Brien (who later became a futurist before trying his hand at a career in music) was wrong. Experience has shown that from 1996-2016 territorial location gained significance within professional, scientific, and economic policy discourse in the midst of global restructuring. Several of the most influential thinkers addressing the world’s global socioeconomic questions have dealt with the rising role of spatiality and places, specifically the growing significance of cities. An urban studies theorist, Richard Florida, presented a model where the role of places in general and cities in particular is deemed essential for the rise of the creative class, which is considered the driver of economic prosperity in his book, *The Rise of the Creative Class*. Edward L. Glaeser, professor of economics at Harvard University, wrote about the (economic) triumph of the city
in one of his most important books.\textsuperscript{2} At the same time, we must also take into account that geopolitical guru Robert D. Kaplan identifies the recognition of the pivotal role of territoriality within global processes as the key tenet of his book, \textit{The Revenge of Geography}, which can be seen as a response to O’Brien.

Today, researching the geography of the world and of its smaller regions is gaining significance in various domains of social sciences. The new economic geography described by Paul Krugman, who was awarded the Nobel Prize for economics in 2008, set up a spatial equilibrium model of growth, and reincorporated geographic thinking into the mainstream of economic discourse.

\textbf{What is in fact happening within the global economic space?}

Globalization has slashed transportation costs, brought distant locations closer to each other, and seen the spatial networks of global production grow into a global web. In the knowledge-based economy, information may appear to disregard physical space and to be capable of being transmitted to any point of the world thanks to the steady rise in digital technologies. It is nevertheless apparent that strong territorial trends of concentration also prevail within the economy: the role of cities has become more important than ever, alongside the so-called ‘agglomeration effect’. However, while the majority of product markets have taken on global dimensions, what are known as input markets – primarily labour and technology – remain very much linked to location.

Globalization not only unifies the world, it also divides it. The networks of production span the entire world, while the central zones of the economy are typically engaged in very different types of activities compared with the less-developed peripheries. The key difference lies in the value added that they create. The high wage costs of advanced economies can only be guaranteed by continuous invention and innovation, i.e. the monopoly of new products, while mass production can be relocated to less-developed regions offering lower production and wage costs.
The main consequences of globalization on the spatial aspect of the economy can be summarized as follows: the main globalization processes, i.e. the spread of information and communication technologies and growing deregulation, have created a dual spatial process, the geographic spread of economic activities coupled with stronger local trends. To put it differently, spatial concentration has gained economic significance, while long-term relationships between distant business partners may also be strengthened. The firms of global industries plan their product markets and sales in terms of country groups, and with respect to input markets and production, they think in terms of sub-national regions, generally cities and their agglomerations. Globally competing companies have recognized that the sources of their competitive advantages are spatially concentrated, so they must take local action to bolster these advantages.

**The competition between new economic geography and regions**

According to Nobel laureate Paul Krugman’s ‘New economic geography’ theory, the general equilibrium theory describing new conditions can be expanded in space. Decreasing transportation costs, the growing significance of economies of scale, the role of increasing returns within global industries, spatial monopolistic (and oligopolistic) competition and the externalities of agglomerations describe the new economy operating under these new conditions. According to Krugman’s new economic geography, the centripetal force leading to spatial concentration and the centrifugal force of spatial dispersion are the result of these effects, which combine to create spatial equilibrium. Spatial concentration, i.e. the growing significance of large urban economies that function as hubs within the global economy, follows from this theory.

The study of competition between countries and regions has become a major topic of interest of economic and regional studies, sparking much debate. In his earlier well-known argument, Paul Krugman contested the idea that there would be similar competition among countries (and thus regions) as in the corporate sector – for instance,
the success of a country would not necessarily come at the detriment of competitor countries. Krugman also considered the early use of the concept of competitiveness to be dangerous, because every country will be a winner in the international distribution of labour based on comparative advantages, with every country seeing an improvement in living standards. Every region’s economy will automatically grow if they focus on their specialization based on their relative advantages.

Meanwhile, Michael E. Porter claims that competitive (i.e. absolute) rather than relative (comparative) advantages have become relevant in the competition among regions, similar to the competition between industries. Porter argues that in territorial competition, “competitiveness depends on productivity, i.e. how capital and human and natural resources are utilized locally. Productivity sets the sustainable standard of living.” What follows from this is that economic growth is not automatic. Regional competition will have its winners and losers, so programmes based on strategic planning must be incentivized in the context of economic development. Porter claims that cluster-based initiatives will be the ones able to survive in global competition.

Within regional economics and economic geography, it now seems accepted that regions compete, but this competition differs from that between corporations and countries. Roberta Capello writes that “regions compete on absolute rather than comparative advantages”. The consequences of regional competition are similar to those of the competition between countries: successfully competing regions see wages rise, the standard of living and employment improve, new investments emerge, and these regions attract talented and creative young people and businesses.

In the wake of this industrial competition, on the one hand the economic role of regions and territorial units is increasing, and there is greater business exploitation of the agglomeration advantages that stem from spatial concentration (essentially external spatial economies of scale). As a result of these processes, several of the initial hypotheses used in economics warrant a reassessment. These include the phenomenon of regional competition and the interpretation of economic growth and development, together with the economic policy and development concepts crafted in response to new challenges.
Where does knowledge grow? Locations within knowledge production

The global economy has entered a new stage of development – innovation, knowledge, and creativity are now the key criteria for successful economic growth. Countries must therefore devise strategies that enable them to move their economies toward a path of knowledge- and innovation-driven development. This is an international competition and those who are unable to make this transition will be left behind and pushed to the periphery of development, synonymous with a permanently low standard of living. The key protagonists of knowledge- and innovation-driven development are the enterprises that are flexible, open, and creative, and are positioned in the forefront of product development. Meaningfully improving the business environment of these enterprises has therefore become a priority for governments.

The level of creativity of communities, regions, and countries is closely correlated with their economic development. The countries that understand the changes unfolding in the environment and view these as opportunities invest in knowledge and innovation. The countries that are unable to generate knowledge will have no other choice but to buy it. And knowledge is becoming an increasingly expensive asset. However, the spread of the knowledge economy has come hand in hand with ambiguity in terms of the role of geography.

In his book, *Triumph of the City*, Edward L. Glaeser emphasizes the importance of personal encounters as opposed to just the rise of the internet and information technology (IT) – the importance of which can be overstated. Glaeser cites numerous studies that confirm the fragility of groups that form and communicate solely electronically and maintains that IT tools should be improving the efficiency of personal meetings rather than being their substitute. Personal relationships are the foundation of deeper trust, greater respect, and more efficient communication and cooperation.

Geographic proximity is also a major factor for patents; it has been demonstrated that the number of patents that refer to each other is twice as high within a metropolitan region. Therefore, geographic proximity has not lost its significance in this age of information.
technology and information society. The circumstances allowing new ideas and knowledge to be born are still defined by geography (specifically, the geographic configuration of the agents that foster development). Today, geographic proximity continues to have a major impact on innovation and productivity.\textsuperscript{8}

Only a portion of our knowledge, referred to as \textit{digitizable knowledge} can flow globally with the help of information technology. However, there is a deeper dimension of knowledge that can only be conveyed – and even created and regenerated – through personal, face-to-face interactions and relationships. This type of knowledge, commonly known as tacit knowledge, a term coined by Michael Polanyi, holds the true secrets of innovation, production through technology and successful economic functioning. In an age where the value of economy is defined by knowledge, knowledge production and innovation arise in metropolises that serve as a backdrop for more concentrated human interactions, and specifically centres that host numerous activities and diversity. This holds true even where urban concentration and agglomeration yields negative impacts such as environmental and social tensions or growth in production and wage costs.

The appreciation in the value of geography is also apparent in the changes in the European Union’s cohesion policy. Local developments were prioritized for the 2014–2020 programming period as a result of the Barca Report (published in 2009). In the Treaty of Lisbon – the European Union’s unified fundamental document since 2012 – territorial cohesion was identified as a new objective geared toward a deeper understanding and shaping of spatial organization. These policies implement geographically harmonized developments based on territorial strategies tailored to every region. The principle of flexible geography introduced by the new programmes also attests to the rise of a location-based mentality. Space and location have thus become more important in cohesion policy, although they do not necessarily coincide with the territorial units defined by the administrative borders of countries and regions.
Globalization has essentially reached everybody. Global correlations directly impact our personal lives in a number of scenarios, such as when our coworkers come from different national backgrounds, when we consume food produced in East Asia, or perhaps when our loan instalments change as a result of the shifting international balance of financial powers. Today, we are living in a changing and unstable world in terms of economy, society, demography, and climate.

The changes are closely correlated with the development of technology and are increasingly taking place on a global scale. This is why the early 21st century is considered to be an exceptionally uncertain period and why geopolitical analyses are becoming more important than ever. British foreign policy journalist Tim Marshall addressed these topics in his book, *The Prisoners of Geography*. Over the course of a career that spans 25 years, Marshall has been present in numerous major geopolitical theatres such as the Balkans, Afghanistan, and Syria. In his book Marshall draws attention to the underlying factors of the events in these theatres, specifically their geographic aspects.

He argues that the decisions of national leaders are shaped by geographic factors to a far greater degree than one would first think. This was true in ancient Athens, Persia, or Babylon, and today geography continues to influence the decisions of every leader.

In today’s technological era, when the boundaries of mental and physical space are losing their significance, we are prone to forgetting the importance of geographic factors. Having said this, we are also at a time when we are witnessing quite the opposite in the sense that geographic factors are becoming increasingly decisive in international relations and political debate. And so we are seeing that the geographic laws familiar to Hannibal, Sun Tzu, or Alexander the Great still hold true today. Geopolitical developments impact every nation, during both times of war and times of peace.
The revenge of geography
– geopolitics and the new world order

Robert D. Kaplan, former geopolitical analyst at Stratfor (a geopolitical intelligence platform and publisher) and the author of several books including *The Revenge of Geography* (2013), argues that geography holds the key to understanding drivers in the world, and specifically geopolitical and foreign policy conflicts. In his acclaimed book, Kaplan shows why the impact of geographic factors on societies is still active today, and that the Western elite’s belief that geography has become obsolete is flawed, and underestimates and fails to take these factors into account when understanding and resolving conflicts. Although we may forget about the power of geographic factors, they do exist, Kaplan argues. Not even technological progress is capable of eliminating them, despite the fact that many believed the contrary. In fact, not only has technological progress failed to result in the ‘end of geography’, it has given greater significance to certain territorial aspects. The same applies to international relations and foreign policy. While the Western world sees international relations as a mere collection of laws and international treaties, the majority of the world thinks in terms of deserts, mountains, ports, and fresh water. No matter how obsolete this may seem, territory and the associated blood ties play a pivotal role in defining who and what we are.

Many were perplexed when Kaplan presented his theory in the context of our current global political setting, and attempted to outline the expected trends by factoring in geographic aspects in the 20 March 2014 issue of *Time* magazine. The surprise was even greater when Vladimir Putin occupied the Crimean Peninsula in early 2014, driven by exactly the same considerations. Russia took advantage of the fact that Europe had been weakened by the protracted economic recession and internal conflicts when annexing the peninsula in an effort to maintain its influence over Ukraine, playing the ‘geographic card’ multiple times. It then infiltrated (using indirect tools) the territories of Eastern Ukraine inhabited by a large Russian minority, which happened to constitute a link between Russia and the Crimean Peninsula.

A significant portion of the problems in the Middle East stems from a geographically driven battle between the Shiites of the Iranian
Plateau and the Sunnis of the Arabian Peninsula. The Eastern Saudi and Bahraini political oppression (Western Iraq and Western Syria) is fuelled by the conflict between Saudi Arabia and Iran. When Iran undertook to lay the technological and scientific foundations for building a nuclear bomb, Israel entered into a de facto alliance with Saudi Arabia. Israel in the late 2010s fears the consequences of a zero-sum game in the event of a potential confrontation and, despite its formidable military power, taking unilateral military action against Iran would exceed its capacities.

The most important territory for the United States in the 21st century is Asia, which has become far more unstable compared with the early 21st century. This is partly due to geographic reasons. The countries of East Asia had stabilized by the late 20th century, many of them establishing settled institutional systems and successful and thriving global-standard economies that have allowed and, in many regards, compelled, them to open up toward the rest of the world. Growing military ambitions began as early as in the 1990s. Asia’s share of global military imports has risen from 15% to 41% since 1990, and its share of global military spending has swelled from 11% to 20%. Most conflicts have occurred due to the strategically located islands in the East and South China Sea, rich in natural gas and oil.

Although these disputes are often placed in a context of racial and ethnicity-based nationalism, they are not driven by moral or ideological motives, but are quite simply about territory. The tension between China and Japan or the many conflicts between China and Vietnam and the Philippines are so complex that although they could theoretically be resolved through negotiation, they will in fact be held in check by the balance between the Chinese and American navy and air force. The military ships stationed in the Pacific Ocean form a map similar to that of Europe in earlier centuries, enmeshed in a variety of conflicts. Although there is little chance of a war breaking out in the classic sense, East and South-East Asia are shaping up to be an increasingly troubled and complex region characterized by territorial disputes and the fight for controlling natural resources and trade routes.

The huge mountain ranges of the Himalayas have enabled India and China to live close to each other in relative peace. However, shrinking distances since the third quarter of the 20th century have made them
strategic competitors in both the Indian Ocean and the South China Sea. In 2001, the election of Hindu nationalist Narendra Modi in India may have marked a more aggressive turn for Indian foreign policy, particularly with regard to Japan and China. China is expected to react with more pronounced and regime-centric nationalism to its economic struggles, disputes regarding maritime territories, and growing internal ethnic conflicts. It remains to be seen how long the Han Chinese, who account for 90% of China’s population and inhabit its most prosperous regions, will be able to maintain control over the distant minority-populated peripheries that are now showing economic and social dissatisfaction. The greatest existential challenge facing China will not be controlling its currency, but rather its borders and certain regions, warns Kaplan.

According to Kaplan’s vision, if geographic aspects are duly factored in, Western methods – such as the reinforcement of civil society and the rule of law – coupled with decentralization could prove efficient in resolving these conflicts. So, although a thriving civil society may emerge in Ukraine, its geographic position will compel it to maintain a continuously strong and sound relationship with Russia.

The Arab world is also set to stabilize sooner or later, but Western powers will be unable to impose their model on the complex and extremely populous Islamic societies, or only at a great expense. Meanwhile, there is also little likelihood of war breaking out in East Asia, however, ethnic nationalism will have to be addressed within the region.

The good news is that most redrawn boundaries affected by conflict are located within and not among states. For this reason, the cataclysms of the 20th century are not likely to repeat themselves. At the same time, continues Kaplan, civil society can only be reinforced by factoring in geographic attributes, and foreign policy must implement the strategic lessons of the underlying analysis in practice without sacrificing principles, and with a focus on geography.