Global Economic Networks

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Abstract

Globalization can be most concretely captured in an investigation of global economic networks. In this essay, we review foundational and cutting-edge research on global economic networks, including economic ties that result from trade, investment, finance, and remittance relations between corporations and/or citizens from different nations; through flows of people due to migration and global tourism; and via international institutions that govern global economic exchange. We focus on research that examines the determinants and consequences of global economic ties from different theoretical perspectives, such as neoclassical economics, the world-systems research, global commodity chains, regionalization, and world society perspective. We also review research that maps the structure of the global economy. We end by identifying promising venues for future research.

INTRODUCTION

Globalization, or the intensification of cross-national flows of goods, people, technology, and capital that increases international interdependencies and compresses time and space, can be most concretely captured in an investigation of global networks. In this essay, we review foundational and cutting-edge research on global economic networks, including economic ties that result from trade, investment, finance, and remittance relations between corporations and/or citizens from different nations; through flows of people due to migration and global tourism; and via international institutions that govern global economic exchange. We focus on research that examines the determinants and consequences of global economic ties, and on research that uses network methods to map the structure of the global economy. We end by identifying promising venues for future research.

One of the earliest studies of economic relations is that of trade between countries. Wallerstein (1974) traces the origins of trade as a global phenomenon to the "long sixteenth century" (1450–1640) when a number of chartered trading companies emerged in Europe. Over the next several centuries, the development of a world trading system created a particular

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division of power between those countries that were at the center of this trading system, the *core*, and those at the *periphery* (Wallerstein, 1974). A major theme in sociology has been about how unequal economic exchange between countries, which can be captured in the North–South divide in the structure of global economic networks, influences differential prospects for development.

The foundations of the contemporary economic globalization were established by the system of financial and trade institutions set up in Bretton Woods, New Hampshire, in 1944, including the IMF (International Monetary Fund), International Bank for Reconstruction and Development (later renamed into World Bank), and WTO (World Trade Organization) [formerly GATT (General Agreement on Tariffs and Trade)]. In the late 1980s, these international institutions started to promote a neoliberal economic agenda (Gore, 2000), encouraging liberalization of trade and FDI (foreign direct investment). Indeed, trade increased from comprising 24% (1960) to 56% (2010) of world GDP (gross domestic product). FDI has grown exponentially, from a mere $12 million in 1970 to $1.5 trillion in 2007, before the economic crisis. Growth in the total value of stocks traded on global markets has also been spectacular, from 35% of world GDP in 1990 to its peak at 182% in 2007, before the financial crisis, and recovering at 106% in 2010 (World Bank, 2012a, 2012b). Notable are also trends in the rise of migrants, remittances, and world tourism. We review research on all of these economic flows, focusing on studies examining their determinants and consequences.

FOUNDATIONAL RESEARCH

Early Study of Trade and FDI in Economics and Sociology

International trade is the exchange of capital, goods, and services across international borders. The traditional economic explanation for the patterns of international trade dates back to foundational work of David Ricardo (1817) on competitive advantage, which holds that countries should specialize in economic activity for which they have a competitive price advantage, and that liberalization of trade facilitates this specialization. In the 1980s, trade analyses in economics moved away from this focus on interindustry trade among dissimilar nations to examine intraindustry trade among similar nations, noting that consumer preferences, specifically for a variety of goods, and returns to scale have given rise to these particular patterns of trade (Krugman, 1980).

Instead of focusing on determinants of trade, early sociological research proposed that international trade is central to explaining economic development and underdevelopment of individual countries. World-systems theory argues that the modern world economy was built upon asymmetrical economic relations between countries, or "unequal exchange," where surplus from the periphery countries was transferred to the core countries, leading to the accumulation of capital in the core (Wallerstein, 1974). In other words, the modern world economy was built out of competition between core states where success depended upon the extraction of labor, resources, and other benefits from the periphery (Chase-Dunn, 2007).

The economic study of FDI and MNCs (multinational corporations) started in the 1950s with a focus on benefits of US investment for host economies (Dunning, 1958), followed by studies on the strategies of MNCs, highlighting the role of the product cycle in determining foreign investment decisions (Vernon, 1999). These first studies of MNCs were all grounded in neoclassical economic theory, analyzing corporate strategies as examples of rational profit maximization and transnational investment as beneficial to global welfare (Kindleberger, 1970). Likewise, early economic study of aggregate FDI flows examined the effects of economic opportunities generated by the demand and costs associated with the supply at the investment site (Aharoni, 1966). Demand was estimated by market potential in terms of size and growth. Key cost factors included the availability, skill, and cost of labor; macroeconomic stability; and development of infrastructure (Dunning, 1980).

Sociologists questioned the positive spillovers of MNC activities and emphasized the uneven power relations between core nations where FDI originated, and underdeveloped peripheral countries that received it. The dependency school argued that MNCs hurt the ability of the Third World countries to build domestic industries controlled by locally owned firms (Cardoso & Faletto, 1979). With a similar focus on the political economy of FDI, world-systems theorists have argued that foreign investment serves primarily the investors from developed core states and thus constrains the development of poor countries on the periphery by relying on low-wage unskilled labor and low technological sophistication, which creates few opportunities for beneficial "spillover" effects (Bornschier & Chase-Dunn, 1985). Furthermore, heavy dependence on foreign capital promotes an uneven distribution of capital intensity across sectors and geographical regions in the receiver economy, increasing overall income inequality (Frank, 1967); it limits the development of human capital, such as bureaucratic skills necessary for a highly functioning business sector (Evans & Timberlake, 1980); and it tends to produce a race to the bottom where developing nations compromise labor and environmental standards to attract FDI (McMichael, 1996).

As concerns the structure of global economic networks, Snyder and Kick (1979) were among the first to use network methods to map the global economy and investigate the empirical relevance of the core-periphery-semiperiphery hierarchy envisioned by world-system analysis. Performing blockmodel analysis of international trade flows, military interventions, diplomatic exchanges, and conjoint treaty memberships between 1955 and 1970, they found support for the existence of the world-systems hierarchy in the global economy, and its consequences for economic growth.

CUTTING-EDGE RESEARCH

Global Commodity Chains and Global Value Chains

Trade since the 1970s and 1980s increasingly reflects the "disintegration of the production process" (Feenstra, 1998), where firms fragment production into stages located in different nation-states. Indeed, studies show that this kind of productive disintegration explains a good deal of the rise in manufacturing trade since 1970. Unsurprisingly, research agendas devoted to explaining this trend emerged along with it. One of the earliest was the GCC (global commodity chain) perspective (Gereffi & Korzeniewicz, 1994). Here, each stage of the process can be understood as a link in the chain that brings a commodity through its life cycle (Centeno & Cohen, 2010). Gereffi's (1994) initial differentiation between "buyer-driven" and "producer-driven" commodity chains highlighted that these emergent global chains have different kinds of governance, where buyer-driven GCCs reflect the leading firms' desire to capture the most value in the chain, which typically accrues to the final stage of marketing and sales.

The GVC (global value chain) paradigm emerged from GCC research. In particular, the GVC approach supplements the buyer-driven/producer-driven dichotomy with an "industry neutral" governance scheme that is a function of three variables characterizing a given interfirm exchange—transaction complexity, transaction codifiability, and supplier competency (Gereffi, Humphrey, Kaplinsky, & Sturgeon, 2005). What is crucial about this GVC intervention is that the concept of "chain governance" expands from two (buyer/producer-driven) to several possible types, but this intervention also disguises somewhat who has power in value chains, how/why power is exercised, and what the implication of value chains are for the geography of global production (Mahutga, 2012).

Research on Political, Social, and Cultural Determinants of Trade and FDI

While sociologists continue to be more interested in the consequences of trade and FDI for inequality, an increasingly prominent strand of research flips the focus to consider the determinants of FDI. Building on the cost–benefit work of economists, studies suggest that, in addition to economic factors, political risks deter investors (Henisz, 2000). Foreign investment policy can provide incentives to investors in the form of tax holidays or exemptions from import duties, and thereby reduce costs at investment sites, while protectionist policies increase them (Bhagwati, Dinopoulos, & Wong, 1992). Investigating a relationship between democracy and FDI, Jensen (2006) finds a positive effect because democratic governments can more credibly commit to market-friendly policies than can authoritarian regimes [but see Li and Resnick (2003)].

Departing from a one-sided focus on the rationale of investors, Bandelj (2008) argues that FDI is a social relational process because it involves actors who are oriented to each other in their behavior, attribute meaning to economic exchanges, are influenced by power dynamics, and rely on networks and institutions to practically navigate FDI interactions. Similarly, Delios and Henisz (2000) find that investors embedded in interorganizational networks imitate the behavior of their peers. In an overtime study of trade (1950–2000), Zhou (2010) also finds that cultural and political similarity remain important factors in structuring the networks of trading relationships, over and above typical economic considerations.

International Economic Governance

Recently, more scholars have examined the institutions responsible for global economic governance. Work on the WTO has sought to understand the distribution of power within it, finding more limits to the role of the United States (Chorev, 2005) and more influence of China but also Brazil, South Africa, and India (Wade, 2011). The findings on whether WTO membership promotes trade are inconclusive, with some finding that a GATT/WTO connection promotes trade (Mansfield, Milner, & Rosendorff, 2000), while others that it does not (Rose, 2004).

In addition, scholars focus on regional trade institutions (Duina, 2005), and different kinds of IGOs (international governmental organizations) that promote trade by removing tariffs, capital controls, and various quotas, as well as other restrictions on foreign goods in domestic markets (Fligstein, 2005). Moreover, some research finds that even noneconomic IGOs, such as social and cultural ones, help increase international trade (Ingram, Robinson, & Busch, 2005), while others see the effect of IGOs on trade waning over time (Zhou, 2010). Conflicting results may stem from differential regional effects given Geldi's (2012) findings that the EU and NAFTA (North American Free Trade Agreement) facilitate more intraregional trade but their Latin American and Asian counterparts do not.

Consequences of Global Economic Networks

Research has continued to focus on the consequences of global economic flows for inequality across countries, as well as for work and workers. Smith and White (1992) find empirical evidence of a core-periphery hierarchy, as well as the existence of regional subdivisions. Mahutga (2006) extends the reach across countries and over time (between 1965 and 2000) to find persistence of structural inequality, but also some mobility of "exceptional" countries (e.g., South Korea, Singapore, Turkey). Moreover, Clark (2010) finds that mobility within the world system is a strong predictor of economic growth, even after initial world-system position, capital/labor resources, and regional economic factors are considered.

As concerns globalization's consequences for work and workers, research generally highlights more negative consequences than positive ones [for a review, see Bandelj, Shorette, & Sowers (2011)]. In the developed world, for instance, flexible forms of work among highly skilled workers have increased, which allows such workers more control over their work experiences. But global dynamics have also brought liabilities to workers in the developed world, principally in the forms of increased job insecurity, work hours, and work stress. In the developing world, globalization has resulted in a general increase in available jobs, but global forces have also resulted in long working hours with few labor protections, exploitation of female workers, and periodic bouts of unemployment. Similarly, the implication of GCC/GVCs for economic development and workers is unclear. While GCC/GVC integration can lead to real technology transfer and learning by doing, these processes do not necessarily increase wages and may have reduced the unit price of manufacturing output (Schrank, 2004).

The Structure of the Global Economic Networks

With the use of network analytic techniques and more available data that allows examination of (almost) all the world's countries, studies continue to ask questions about the structure of globalization. In a review, Lloyd, Mahutga, and de Leeuw (2009) conclude that a handful of "core" states continue to occupy positions of high power and status vis-à-vis other actors in the network. In contrast, Kim and Shin (2002) analyze data on commodity trade between 1959 and 1996 to find that interregional and intraregional trade ties increased. However, Piccardi and Tajoli (2012) use data on trade flows between 1962 and 2008 to find no support for the existence of strong preferential trading regional groupings, and instead argue that the data supports an image of a truly globalized economy.

Bandelj and Mahutga (2013) use BITs (bilateral investment treaties), or institutional arrangements signed by countries to promote and protect FDI between them, to suggest that the three models of globalization, universal, core/periphery, and regionalism—usually portrayed as competing explanations of global structures—in fact coexist. Using data from the inception of the BIT network in 1959–2009, they find that the number of BITs increases significantly over time to include nearly all of the world's countries. However, the density of ties between advanced capitalist and others is stronger than for any other dyadic types, with some evidence of regional homophily strengthening over time.

Global Migration, Transnational Communities, and Remittances

According to the World Bank, the number of international migrants doubled to 215 million between 1985 and 2010. These developments helped shift the focus in migration studies from the assimilation experience of immigrants and their impact on the receiving country (Park & Burgess, 1969 [1921]) to greater attention on migrants' origins, and the community context of migration (Massey *et al.*, 1993).

Recent research on global migration suggests that migratory activities do not signify a complete break with one's home country. Instead, global migrants maintain transnational existences, where they incorporate into the receiving societies but maintain ties to their home countries (Levitt & Jaworsky, 2007). Research also highlights the particular role of migrants in "global cities" (Sassen, 2006) as low-wage labor force, and the role of ethnic communities in receiving countries (Light, 2005).

A crucial economic aspect of global migration is substantial growth in the worldwide amount of international remittances, or income earned by international migrants that is returned to their home country. According to the World Bank, remittances to developing countries more than quadrupled between 1985 and 2010 to over $300 billion, without a substantial decline during the 2008–2009 global recession (World Bank, 2012a, 2012b). The majority of empirical studies point to the contingent and differentiated effect of remittances for certain groups and over time (Lu & Treiman, 2011), mediated by social forces such as international labor markets and domestic gender role expectations (Akesson, 2009; de Haas, 2006). Improvements in methodology, such as gathering longitudinal data from both sending and receiving parties, and modeling migration and remittances as part of one and the same process (Garip, 2012) represent fruitful venues for future research.

KEY ISSUES FOR FUTURE RESEARCH

Advances in the study of global economic networks would benefit from substantive and theoretical breath. In terms of substantive topics, alternative forms of trade, illicit economic flows, global tourism, and international financial flows deserve more attention. Alternative forms of trade, such as fair trade, have increased in prevalence (from $198 million in 1994 to $5.8 billion in 2010) and case studies point to positive, although limited, effects on participating producers in developing countries (Jaffee, 2007). Going beyond case studies, research on fair trade should examine cross-national and over time trends in production and consumption of fair trade goods, including why the fair trade system emerged when and where it did. However, data availability, especially data on sales before the establishment of formal international networks in the mid-1990s, poses a sizable challenge to expanding our understanding of fair trade on a global scale. Similarly, reliable data on global illicit networks formed via human trafficking, smuggling, organized crime, or terrorist networks are often intractable, even if examining how various forms of illicit networks are similar or different in various regional contexts, and scrutinizing the relationship between global illicit networks and political, cultural, and economic global networks warrants attention (Limoncelli, 2009).

Given the spectacular increase in total export earnings generated by international tourism (US$1.4 trillion in 2013), and international arrivals surpassing US$1 billion in 2013, we need more sociological work on world tourism and its determinants and consequences. Bandelj and Wherry (2011) propose that global tourism relies on the cultural wealth of nations, which developing countries can turn into economic benefits to advance prosperity, with varying levels of success. The question remains under which conditions it works more or less effectively, and how power and unequal exchange relationships are mirrored also in patterns of tourism.

In addition, global financialization calls for more investigation. The recent economic crisis from 2008 onward highlights the vulnerabilities of a financialized global economy, and investigation of its governance is in order. Further, we need to know more about both the determinants of financialization processes and their consequences.

Theoretically, research on global networks can further investigate the role of power and culture in shaping economic outcomes. Learning from the network embeddedness perspectives in economic sociology, actors in the logistics industry can be considered as brokers of global economic networks (Bonacich & Wilson, 2008; Silver, 2003) but we need more sociological research to identify the conditions under which workers in this industry leverage the power of their bridging positions between production and consumption to achieve concrete goals.

Aside from power, recent work on GVCs has increasingly adopted a focus on the cultural-political dimensions of economic production. Ponte and Daviron (2011) argue for leveraging symbolic value in the GCCs of the South African wine industry, and Bair (2011) points to the construction of value in ancient Mayan locations and traditions in tourism commodity chains. Indeed, the novelty and relevance of GVCs may lie in the service industry, particularly in tourism. The flow of Northern tourists to Southern locations provides an alternative GVC structure where producers in the global South retain greater control over the GVC by virtue of their location. Future research should empirically examine service GVCs and the possibilities of national development via tourism and other services.

Finally, world society theory highlights the institutional foundations of global processes (Boli & Thomas, 1997) but largely ignores international economic flows. Promising is the examination of neoliberal policies diffusion (Henisz, Zelner, & Guillen, 2005), and the influence of INGOs' (international nongovernmental organizations) integration on domestic corporate social responsibility initiatives (Lim & Tsutsui, 2012). Further analyses are needed, with attention to the processes of decoupling (Meyer, Boli, Thomas, & Ramirez, 1997), given that existing studies of the role of INGO integration on trade yield mixed results.

CONCLUDING COMMENTS

Research on global economic processes is variegated and yields many inconclusive results regarding the structure of the global economic network, as well as its determinants and consequences. In terms of consequences, world-systems research points to the persistence of unequal exchange while institutional perspectives find more evidence of regionalization. In terms of determinants, economics research emphasizes the instrumental considerations while sociologists uncover the political and cultural embeddedness of global economic flows. Key challenges remain in data availability, given that complete network data that encapsulates all of the world's countries over a longer period of time is best suited to capture global economic networks. Longitudinal analyses of global economic networks can tell us much about the central questions that drive globalization research, about the shape of globalization and its consequences, but require significant computational power.

Substantively, the literature needs a better handle on how political, cultural, and material processes interact in shaping various global economic flows. Empirical evidence of these interactions abounds, for instance, in how GVCs incorporate considerations of cultural value creation processes. Examination of international aid shows how political relations lead to economic exchange. The notion of social remittances indicates that migrants do not send back only monies but also ideas and cultural practices (Levitt, 1998). Therefore, the study of global economic networks would be well served to consider the simultaneity of cultural and material processes as well as the interplay between transnational and more local/regional trends. Such an analysis might uncover that universalistic processes operate in the world polity but are nevertheless conditioned by the unequal distribution of capital between countries, as well as the idiosyncratic behavior of some regions vis-à-vis others.

GLOSSARY

BIT	Bilateral investment treaties
FDI	Foreign direct investment
GATT	General Agreement on Tariffs and Trade
GCC	Global commodity chain
GDP	Gross domestic product
GVC	Global value chain
IGO	International governmental organization
IMF	International Monetary Fund
INGO	International nongovernmental organization
MNCs	Multinational corporations
NAFTA	North American Free Trade Agreement
UN	United Nations
WTO	World Trade Organization

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