When Globalization is not good for Less Developed/Developing Countries:
The global finance industry and uneven development

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Abstract

The phenomenon of globalization has been a widely debated area of research over the last couple decades as researchers and policy makers have sought to understand and map the varied effects processes of globalization have on the global economy. Taking an economic geographical perspective to understand how globalization is implicated in the production and reproduction of inequality (or equality) across economic space, this paper provides an argument that places doubt in the focus on convergence or divergence, suggesting that an alternative understanding of globalization as both a bundle of processes and political project come together for a more nuanced understanding of global economic activity as non-linear and variegated. Using the global financial industry as a case study and currently available data this paper attempts to understand how this sector, representing a vital process of globalization, is implicated in uneven development by unearthing the importance of global financial centers, looking at how finance is implicated in regional inequality, and finally addressing the issue of global finance in economic volatility at a global level. This paper suggests that current understandings of globalization, inequality, and uneven development are inadequate and that new modes of (inclusive) globalization may be possible.

Key words: globalization, financial industry, inequality, uneven development

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1 I will be representing The University of North Carolina at Chapel Hill (UNC) at the Conference, but I am part of a Joint Degree Program between UNC and the National University of Singapore in the Departments of Geography.
Introduction: Financial Industry Globalization

Over the last three decades the world economy has been transformed through a series of coterminous processes which have dramatically altered the geography of economic activities, not just in quantitative ways, but in qualitatively different means, characterized by “deep integration” of global economic activity over space (Dicken 2011:7). Thus, more than mere expansion of production over the globe, economic activity is now characterized by stretched governance structures in which a firm practices increasingly sophisticated levels of control and organization over space. This “globalization” has become a siren call for many as to the end of geography as an integral factor in the organization of global economic activity (Ohmae 1990; O’Brien 1992; Friedman 2005), yet globalization does not describe an inevitable utopian ending, but a variety of interdependent forces that act unevenly across space and time. This unevenness is critical to our understanding of who are the winners and losers in a globalizing world.

One of the fundamental, yet often unproblematically naturalized processes of globalization has been the role of the financial industry and the increasing financialization of economic activity (Hart 2010). Thus economies are increasingly being affected by a “pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production” (Krippner 2005). Not only does the financial industry act to lubricate productive activities, but it is taking an increasingly important role in shaping decisions on what and where to invest, altering our behavior. Financial products, such as derivatives, once thought to be tantamount to gambling soon became vital instruments for seeking “market efficiency” as financial models increasing came to influence actual trading practices (MacKenzie 2006). This was made explicitly clear in the Global Financial Crisis as financial institutions did not have a decline in housing prices built into their models. Thus, the expansion and integration of a global financial industry has become
one of the central features of neoliberal globalization with emphasis on free, efficient financial markets. This has been made possible by breakthroughs and investments in information and communication technology and the political initiatives of liberalization (deregulation of banking that occurred through the 1990s). Increasingly the divide between banking and financial services has collapsed— in the 1990s “Citicorp (banking) and the Travelers Group (insurance and securities) conducted the largest merger in corporate history, as Citigroup”—marking the creation of firms that concentrated banking, investments, and insurance in a single corporate entity or “financial services corporation” (McMichael 2012: 238). In fact, the expansion of finance is perhaps one of the “successes” of globalization, for today the financial services industry can act nearly 24 hours a day. FDI now outpaces increases in trade, and foreign exchange trading has gone from being twice that of trade in 1973 to 100 times greater in 2007 (Dore 2008: 3; Dicken 2011). Thus, money is able to move across globalized regions quite fluidly, yet these global flows are not without their own geographies and vulnerabilities; having varied impacts on different spaces (countries, regions, localities, etc.) and flows.

Due to the mutual constitution of the global finance industry and the process of globalization, finance becomes an appropriate lens through which the evaluation of whether globalization is good or bad for Less Developed Countries (LDCs)/Developing counties can be addressed. It is the contention here that the current\(^2\) mode of neoliberal globalization (as viewed through the financial industry) is not good for (most) LDCs and where it has shown more success it is not a result of the full adoption of the “imperatives” to neoliberal globalization. Many LDCs have been marginalized, suffered rising inequity, and greater economic volatility as a result of (financial) globalization. Globalization should be observed as a set “multicentric, multiscalar, multitemporal, and multicausal processes”, rather than a

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\(^2\) It is important to view globalization and the geography of production and finance as always in a constant state of change, so I use the term current to emphasize the temporal quality of my evaluation.
unidirectional or inevitable trajectory of development that follows much of the neo-classical modernization theory (Jessop 2002: 113-114; Potter 2008; Hart 2010). This will be interrogated by discussing the current map of finance, taking a look at the relationship between the finance industry and inequality, and finally an assessment of the impact of (financial) globalization on crisis and volatility which negatively impact the economies of LDCs.

The (non)globalizing…

The financial industry has seen rapid growth and change as a result of globalizing processes dominated by widespread liberalization schemes in much of the developing world since the late 1970s. Subsequently, bank and non-bank financial institutions have rapidly increased in number and geographic extent; offering an ever increasing number of financial products through which corporations have sought to raise capital (disintermediation) (Dicken 2011). A result of this is a reinforcement of the leading financial centers as sites of “interpretation, calculation, and power” (French and Leyshon 2004: 270). The deep integration of the financial industry has occurred mostly within a persistent (since the 1970s) global triad between North America, Europe, and East Asia (Figure 1). The finance industry has also
become important in a few select small island nations for very specialized purposes as tax havens and or back office locations for large financial firms, but the benefit to many of these (largely LDCs) is suspect due to the over specialization in a single sector that may be open to rising volatility (Roxas 2011). Nevertheless, there is a clear geography of the financial industry that has largely excluded (Sub-Saharan Africa) or marginalized (Latin America) LDCs in the process of financial globalization. A look at the Global Financial Centers Index 9 (2011) is illustrative of such geography. Latin American or African financial centers do not appear until ranks 44 and 54 respectively. In fact, there is also no discussion of African or Latin American financial centers in the report, though they do exist in such cities as Sao Paulo and Johannesburg. Meanwhile, emerging centers (as ranked by increasing significance and office opening potentials) are largely in East Asia and the Middle East (GFCI9 2011, Figure 2).

**Figure 2**

The GFCI questionnaire asks which centres are likely to become more significant in the next few years. Asia continues to feature very strongly and is where respondents expect to observe the most significant improvements in performance.

<table>
<thead>
<tr>
<th>Financial Centre</th>
<th>Number of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>62</td>
</tr>
<tr>
<td>Singapore</td>
<td>55</td>
</tr>
<tr>
<td>Seoul</td>
<td>37</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>33</td>
</tr>
<tr>
<td>Beijing</td>
<td>17</td>
</tr>
<tr>
<td>Dublin</td>
<td>15</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>12</td>
</tr>
<tr>
<td>Channel Islands</td>
<td>11</td>
</tr>
<tr>
<td>Dubai</td>
<td>11</td>
</tr>
<tr>
<td>TelAsia</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Global Financial Center Index 9 (2011)

This helps to explain the rapid rise of Shanghai and Shenzhen as emergent global financial centers, but most LDCs have seen little benefit from the “globalization” of the finance industry, even as it becomes an increasingly important strategy for corporate investment. In
fact the very creation of Asian “emerging market” centers occurs in a sort of imagineering which evolves out of reflexively constructed knowledge networks of various actors (i.e. investment bankers) as they co-evolve with various corporate strategies and spatial fixes for capital investment as a result of declining returns in the global north (Lai 2006). This unevenness is not just incidental, but crucial to understanding the consequences of financial globalization. Many LDCs remain largely “off the map” of finance, both discursively and materially.

Bhalla, writing in *The Economist* (11 Mar. 2004) asks, “Can it possibly be claimed that these counties [Sub-Saharan Africa] are the victims of globalization? That would be odd…” Yet, the corollary cannot be said that globalization or globalization of the finance industry would lead to unproblematic benefits for these countries. Johannesburg, South Africa is largely considered the most important globalizing financial center in Africa, yet liberalization processes of financial globalization in the late 1990s lead to dramatic alterations in the capital structure. Corporations moved their listings to the London Stock Exchange and financial flows into South Africa became largely short term and speculative leaving increasing wage disparity in their wake (Hart 2010). This strengthened the financial power of London, yet left Johannesburg as a marginalized “Local Established Player” in the words of the GFCI9 (2011). Thus, Bhalla’s argument that Africa is behind because it has *not* globalized is largely a result of unilinear thinking, for which the possibility for uneven consequences of globalization and its spatial relationalities are ignored. It is the reproduction of finance within the established globalized centers that marginalizes and excludes LDCs. The financial industry provides a lens through which it could hardly be concluded that globalization is universally good for LDCs on the basis of its spatial configuration.

A primary catalyst for the concentration of the financial industry comes from the benefits of “being there” as associated with local buzz (Gertler 1995; 2003). That local buzz
being the knowledge, culture, and social institutions produced in a particular space that encourages the rapid dispersion of innovative ideas and techniques. This emphasizes the need to have local economic linkages, but it is important to also have these knowledges integrated into global flows, for it is the combination that allows a certain location to become a vital node within the financial industry (Breathnach 2000; Lai 2006). However, in this manner the relational perspective on the geographies of globalization is useful in understanding the geometries of power that currently constitute the financial industry (Yeung 2002). Teo (2009) has shown that local advantages allow for increased performance of hedge funds located in emerging markets, but that those father away in the established centers of the finance industry (New York and London) are able to raise more capital, charge higher fees, and establish longer redemption periods. The geometries of power explicit in these relations still reveal an effective ability of the financial industry to globalize in a manner that effectively marginalizes and excludes other regions from the full benefits of globalization. The financial industry gains its economic power through by the very spatial distanciation of knowledge from the social and political spaces of daily life. Its seeming remoteness or separateness is thus a tool, a competitive advantage, exercised in the process of capital accumulation. Thus, the current map of the financial industry displays path dependent territorial and relational geographies that certainly question the idea that globalization is universally good for most LDCs and reveal the role of the financial industry in producing uneven development (Pike and Pollard 2010).

**Finance Industry, Growth, and Inequality**

The globalization of the financial industry has resulted in a global financial architecture characterized by simultaneous centralization and decentralization. This is principally divided into concentrated “front office”, high value added services and dispersed “back office”, low value added services (Leyshon and Pollard 2000; Sokol 2007). Thus there is a marked
geography of value which gives the centers of the financial industry (largely in MDCs and a select few LDCs) a privileged place in global finance, while most back office functions are largely decentralized to LDCs for the purposes of exploiting routine, low cost labor. Processes of neoliberal globalization opened up new spaces for the financial industry in Asia, Latin America, and offshore locations. Some offshore locations have become financial centers themselves as “tax havens”, yet this position is increasingly threatened as MDCs ramp up efforts to control such activities, putting into doubt their future positions in the financial industry (Hampton and Christensen 2002; Prasad 2003; Sokol 2007) and consequently endangering their development. While many of these locations may be able to add to their GDP, increase tax bases, and potentially provide jobs, they also must contend with leakages of local income (financial liberalization combined with 1980s debt crisis in many LDCs actually saw the reversal of investment income from LDCs to MDCs (Leyshon and Thrift 1995)), widening income gaps (Eatwell and Taylor 2000; Dymski 2009), crowding out of other sectors, potential inflationary problems, and dependence upon a single sector (Sokol 2007).

In Latin America strategic policies of various financial industry firms (especially in Mexico and Brazil) helped to harden already high levels of inequality and ridged disparities between the haves and have-nots (Dymski 2009). The liberalization and subsequent globalization (with the introduction of foreign capital and firms) of Latin American financial industries lead not only to crisis, but a situation in which financial institutions sought to create a segmented market to target rigidly differentiated consumers and products based upon ones position in the elite or as a migrant worker. Thus the formal “global” financial products are offered to elites, while remittance services are offered to migrant workers (ibid). As a result, the globalization of the financial industry in many Latin American LDCs has not shown itself to be of great benefit. The large dependence upon remittances (also true for
many Pacific LDCs) made increasingly available through globalized financial services has also been shown to have an adverse effect on national growth (Prasad 2003).

Even in the LDCs that are thought to have benefited from processes of globalization including financial globalization, such as China and India, there is regional inequality (Deaton 2002). Development of the financial industry in China has shown a regional divide in which coastal areas are able to reap the benefits of positive growth as a result of financial development, while rural areas are not (Liang 2006). This finding is consistent with the Chinese government’s approach to its financial sector with a “region specific segmentation” policy which has developed as a means to prevent market failings in rural areas even if it means being “less efficient” (Yeung 2009). This means of financial development predicated on a controlled opening up to a globalized financial industry suggests an alternative within globalization that may be of benefit, but this requires a high degree of state autonomy and capacity which many states, particularly LDCs, even many MDCs lack. It could hardly be suggested that China is a beacon of neoliberal globalization within finance, for it is only now that China is allowing such firms as Citigroup to sell credit cards to an increasingly wealthy Chinese consumer base (The Economist 11 Feb. 2012). Any hope that they will hasten the liberalization of their banking system seems misplaced, particularly in light of this year’s leadership transition. However, increasing inequality witnessed by most LDCs suggests that the benefits of globalization are highly uneven. This is a far cry from suggesting that globalization has been unequivocally “good” for most LCDs, especially when one excludes China from the global poverty counts (Figure 3).
Globalized Crisis and Volatility

Perhaps the greatest challenge LDCs face as they become sites of financial industry globalization is the tendency such financial integration has towards increased risk of systemic crisis and market volatility (Prasad et al. 2003; Fitzgerald 2006; French et al. 2009; Hart 2010; Dicken 2011), which disproportionately impacts the poor which make up the majority of LDCs. Setting aside the fact that financial integration has empirically mixed results on economic growth (Figure 4), the role of financial integration in increasing systemic risk and vulnerability within LDCs can be discussed theoretically and empirically as an outcome of financial globalization. It should be noted that increased financial instability could cancel out any potential benefits of integration because instability is felt more by the poor than the rich (Jeanneney and Kpodar 2005), making it much more difficult for LDCs to deal with poverty.
Empirical evidence offered by Prasad et al. (2003) revealed that consumption volatility for those LDCs that had been most integrated through processes of financial globalization had increased, leading towards increasing existence of consumption booms and busts in many LDCs in the 1990s, for which many international investors were able to take part in as a result of financial industry globalization and product innovations. This supports the notion that this financialization process “is a profoundly spatial phenomenon, because it describes the search for a financialized spatial-temporal fix” (French et al. 2011). As such, these financial flows are prone to sudden “stops and reversals” which outweigh the potential benefits of deep financial integration (Prasad et al. 2003: 45; Fitzgerald 2006). Further empirical evidence on “hearding and momentum” by international investors produced by Prasad et al. (2003) revealed that the dangers of capital flow volatility as being especially acute in emerging markets and places of financial globalization in LDCs. Theoretically, Clark (2005) offers the metaphor of money being analogous to mercury which is useful in understanding how money tends to act; pooling, flowing in channels, and quickly rearranging itself when disturbed. Thus, financial flows in crisis can be understood in the same manner, for the shocks (disturbance) are followed by equally rapid rearrangement, which is often

<table>
<thead>
<tr>
<th>Study</th>
<th>Number of Countries</th>
<th>Years Covered</th>
<th>Effect on Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alesina, Grilli, and Misulis-Ferrarese (1994)</td>
<td>20</td>
<td>1960-89</td>
<td>No effect</td>
</tr>
<tr>
<td>Quint (1997)</td>
<td>58</td>
<td>1975-89</td>
<td>Positive</td>
</tr>
<tr>
<td>Kraay (1998)</td>
<td>117</td>
<td>1985-97</td>
<td>No effect or, at best, mixed</td>
</tr>
<tr>
<td>Rodrik (1998)</td>
<td>95</td>
<td>1975-89</td>
<td>No effect</td>
</tr>
<tr>
<td>Bekker, Harvey, and Lundsted (2001a)</td>
<td>30</td>
<td>1981-97</td>
<td>Positive</td>
</tr>
<tr>
<td>Edwards (2001)</td>
<td>62</td>
<td>1980s</td>
<td>No effect for poor countries</td>
</tr>
<tr>
<td>D’Odonnell (2001)</td>
<td>94</td>
<td>1971-94</td>
<td>No effect or, at best, mixed</td>
</tr>
<tr>
<td>Reisen and Soriano (2001)</td>
<td>44</td>
<td>1986-97</td>
<td>Mixed</td>
</tr>
</tbody>
</table>

Source: Prasad et al. (2003)
detrimental to those integrated into the financial network because of spillovers heightened by financial linkages often result in a sort of “contagion” effect (Prasad et al. 2003).

Thus, globalization of the financial industry can leave LDCs (which often lack other supporting structures) vulnerable to systemic crisis. Therefore, globalization is not “good” for LDCs in this aspect, for the further financial integration proceeds the greater the vulnerability and risk LDCs have to endure. Episodes of the Asian Financial crisis of in 1997-1998 and the recent Global Financial crisis illustrate this rise in systemic risk most clearly.

Conclusion: the paradox of neoliberal globalization for LDCs

The growth of the finance industry and globalization are fundamentally interrelated to each other; both emerging as a result of space shrinking technologies which have enabled closer integration of the global economy. The globalization of the financial industry also saw the increasing power of finance within the processes of economic globalization (becoming one of the drivers) and within our political, social, and cultural lives (French et al. 2011). Yet the implication of financial globalization in crisis, increasing economic volatility and instability, and uneven economic results and extent has come to reveal a paradox of neoliberal globalization (the dominant mode). The consequences have largely suggested that globalization has been “bad” for most (not all) LDCs, yet to suggest to policy makers in these countries that they remain outside the process of globalization seems naïve of the necessity for many of these nations to integrate in some form just to fulfill basic needs and functions.

This paradox reveals that perhaps the question is not whether a country should globalize or not, but how (the relational geographies should be structured)? This means questioning and altering the current geometries of power; breaking down the persistent “global triad” into a more inclusive pattern of financial organization that expands financial inclusion on a global scale—a redistribution of power relations vital to a functioning mode of democratic governance. This reflects the need to account for the unevenness and diminishing
utility of the convergence concept which largely underpins the current mode of neoliberal globalization. The actors who are largely behind the globalization project in LDCs (IMF, World Bank, the media, and the financial industry) do not just “reflect the prevailing neoliberal theory; they perform it” (Lee 2005: 442). This often suggests that as long as places liberalize their markets and regulatory regimes they will be able to successfully “globalize.” Though, this tends to create spatial competition in which places compete in a “race to the bottom” which undermines their future competitiveness as a place that can fix future investment for sustainable local growth (French et al. 2009). An alternative form of globalization must then develop, but that alternative is unclear and remains to be sketched out. Thus, the current mode of globalization ignores the multidirectional path globalization can take, thus ignoring the unique realities of many LDCs which are only harmed through such obscuration. Perhaps a “third way” can be found (Stiglitz 2003: 7); a way that sees globalization not as a linear end point, but one that will and should occur in a spatially variegated manner, where policies forgo universalist tendencies in favor of contextual hybrids. Rather than a system built on the production of antagonism and contradiction between the roles of firm, state, and labor actors, a system built upon partnership and complementarities in the pursuit of social justice and democratic process should be sought.

In the wake of the Global Financial Crisis many were speaking of the end of the “American style capitalism” that had come to hold a near hegemonic force within the global economy. Was this the opening for the “third way”? It seemed as though the state had returned triumphantly back to steer the economy once again. Not only had financial globalization produced a landscape of exclusion and uneven development negatively impacting LDCs, but it seems it would come harm the MDCs themselves. This seemed to be most apparent in the financial sector “where the Masters of the Universe” had to go on bended knee to the state to be rescued…” (Dicken 2011: 270) Global institutions apparently
were beginning to rebuild a system in a more cooperative mode. It seemed as though a space was opening for a redefining of relations between the financial system and the state that would bring about a more socially sound form of global capitalist organization, but whereas the crisis may have exposed the limits of financial capitalism there is too wide a gap between the failures of neoliberalized capitalism and post-neoliberal movements (Peck et al. 2010).

The power of neoliberal economic theories to command the respect they one had may have slipped away, but the post-crisis period may represent a period where normalized neoliberal imperatives are sustained by macroeconomic and macroinstitutional conditions—the “dead hand of market rule” (112). The state has recoiled as quickly as it re-entered, ushering a rich gambit of austerity measures and growth obsessed zero-sum-game modes of governance. The private and public debts have ballooned, leaving nations such as Greece and Spain on the verge of beginning the collapse of the Eurozone. While LDCs own financial institutions remained largely unharmed by the global financial crisis on account of their marginalization form the global system, the decline in global demand for consumer goods has hurt all economies around the globe, particularly LDCs, leading even the most productive LDC, China, to pass economic stimulus measures (Barboza, 9 Nov. 2008).

An advocacy of the “third way” then is more than just a quixotic project intending to end what Karl Polanyi (1944) described as the “double movement” between the unrestrained marketism on one end of the spectrum to the crushing rigidities of state regulationism on the other that occurs through economic history. Ultimately this seemingly moderate approach becomes a far more radical project demanding a dramatic shift in the organization of global sociospatial relations. A process in which:

“New spaces must be carved out not only for a global ethics of responsibility, but also for sustainable forms of sociospatial redistribution—anathema to neoliberalism—which can ultimately be secured between places, through a reconstruction of sociospatial relations” (Peck et al. 2010: 112).
Therefore in order for LDCs to be included in the positive effects of globalization, there needs to be a dramatic shift in the macroinstitutional rules of the game, and inclusion into a reconstructed financial landscape in which the reproduction of uneven development is inhibited. It is only in this way that the spatiality of globalization is a productive one for LDCs to become a part of, for in this scenario the very act of globalization is a process of redistributive inclusion.
References


