Comparative Economic Geography
• The GWP (Global GDP)
• In 2012:
  – GWP totalled approximately US $83.12 trillion in terms of PPP
  – while the per capita GWP was approx. US$12,400.
  – In nominal terms, the total 2012 GWP was ca. US$71.83 trillion.
UNITED STATES ECONOMY: OVERVIEW

- The United States' nominal GDP ca. $15.7 trillion (2012)

- Approx. a quarter of nominal global GDP

- of the world’s 500 largest companies, 132 are headquartered in the US, twice that of any other country.
UNITED STATES ECONOMY: OVERVIEW

- About 60% of the global currency reserves have been invested in the US dollar, while 24% have been invested in the Euro.

- As of March 2013, the unemployment rate was 7.6% or 11.7 million people.

- Extreme poverty, (households living on less than $2 per day before government benefits),
  – doubled from 1996 levels to 1.5 million households in 2011.

- In 2008, the US spent more on health care
  – per capita ($7,146),
  – and as percentage of GDP (15.2%), than any other nation.
In **North America**, there is a high level of concentration of economic activities along the coastal areas (East and West coasts) with significant resource and manufacturing hinterlands.

From coastal gateways long distance **rail corridors**, often taking the form of a landbridge, are servicing a continental hinterland.

This hinterland is articulated by major transportation and industrial hubs such as Chicago.

- In **Western Europe**, the hinterland is the most intense in the interior, notably along the Rhine river system.

- This hinterland is accessed from coastal gateways, such as Rotterdam, Antwerp, Hamburg and Le Havre, by medium distance corridors involving a variety of combinations of road, barge and rail services.

- Almost all the major European capitals are interior cities located along rivers.
• In East and Southeast Asia, a significant share of the economic activity takes place along the coast, which does not forbid high population density interior hinterlands, such as in China.

• Hinterland access is commonly problematic, linked to the fact that a large share of the accumulation of new economic activities has taken place in the vicinity of major gateways.

• There is thus a strong contrast between coastal gateways equipped with modern (container) terminals and hinterland poorly serviced by rail freight services.
In Western Europe, the hinterland is the most intense in the interior, notably along the Rhine river system.

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Almost all the major European capitals are interior cities located along rivers.
EUROPEAN INTEGRATION
&
THE EUROZONE

1951
Founding Members
Belgium
France
Germany
Italy
Luxembourg
Netherlands

1973
Denmark
Ireland
United Kingdom
1981
Greece

1986
Portugal
Spain

1995
Austria
Finland
Sweden

2004
Cyprus
Czech Republic
Estonia
Hungary
Latvia
Lithuania
Latvia
Poland
Slovakia
Slovenia
EUROZONE

• economic and monetary union (EMU) of 17 EU states

• Other EU states will join once they meet the criteria

• except for the UK and Denmark (opt-out)

• Sweden - a “de facto” opt-out

• Monaco, San Marino and Vatican City have agreements with the EU to use the euro as their official currency and issue their own coins.

• Andorra negotiated an agreement which will permit them to issue euros as early as 1 July 2013.

• Kosovo and Montenegro, have adopted the euro unilaterally.

• However, these countries do not formally form part of the Eurozone and do not have representation in the ECB.
EURO and the Economic and Monetary Union

- Rationales:
  - Advancing European integration
    - Market integration – finishes the SEM?
    - Political integration - a key symbol of such integration?
  - Strengthening position of EU in global economy

What is EMU?

- Achieved with:
  - Permanently fixing of bilateral exchange rates or a common currency
  - Free movement of capital

EMU’s technocratic requirements:

- Single Central Bank (ECB)
- Common monetary policy – i.e. one central rate and common exchange policy
- Some pooling of foreign reserves
- Common policies to remove obstacles to factor mobility (i.e. to a single market)
- Common macroeconomic ground

Optimal currency areas require:

1. An absence of asymmetric shocks
2. A high degree of labour mobility and wage flexibility
3. Centralised fiscal policy to aid redistribution

Key question: is the EU an OCA?
Road to EMU

• Not new – e.g. Rome, Napoleon, etc.

I want the whole of Europe to have one currency; it will make trading much easier
Napoleon in a letter to his brother, Louis, 1807

Emergence of modern EMU

• Werner Report – proposes EMU by 1980
• 1979 European Monetary System - ERM, ECU
• 1989 Delors Report – 3 stage approach to EMU
• 1993 Maastricht Treaty – EMU framework and timetable
• 1992-3 ERM crises
• 1.1.99 - fixing of exchange rates
• 1.1.02 – notes and coins in circulation

EMU:

First stage (1 July 1990 to 31 December 1993):
- free movement of capital
- closer coordination of economic policies
- closer cooperation among central banks

Second stage (1 January 1994 to 31 December 1998):
- convergence of the economic and monetary policies of the Member States
- European Monetary Institute
- European Central Bank

Third stage (from 1 January 1999):
- irrevocable fixing of exchange rates
- introduction of the single currency for electronic payments
- introduction of euro notes and coins from 2002.

Convergence criteria (EMU entry requirements)

Fiscal criteria

1. National budget deficit less than 3% GDP
2. National debt less than 60% of GDP – or heading in the right direction
Convergence criteria

Monetary criteria

3. Inflation no more than 1.5 percentage points above the average of the 3 countries with the lowest rates

4. Long term interest rates no more than 2 percentage points above the average of the 3 countries with the lowest rates

5. Exchange rate – within normal band of ERM for previous 2 years

European Central Bank

- Independent and supranational
- Primary objective is to maintain
  - the euro's purchasing power
  - and thus price stability in the euro area
- Responsibility for monetary policy – i.e. interest and exchange rate policy.
- Fiscal policy – remains national – but Growth and Stability Pact to stop member states undermining ECB

Economic benefits of EMU

- Removes exchange rate uncertainty on intra-EMU trade
- Avoids competitive devaluations
- Eliminates transaction costs
- Increases price transparency
- Low and stable inflation and interest rates
- Promotes international specialisation and improves EU competitiveness
- Boosts the EU’s international economic profile

Economic risks of EMU

- Can ‘one monetary policy fit all’?
- Loss of economic sovereignty?
- Asymmetric shocks? – especially if SEM and EMU lead to specialisation.
- Lack of real economic convergence
- Burden of adjustment on wages and prices - flexible enough?
EMU and the Business Environment

- More predictable trade and investment environment
- Initial transition costs
- Harder for SMEs to adjust?
- Intensified competition
  - greater cost and price transparency
  - some price convergence?
- Clusters
- Impact on external economic environment

UK

- Political parties
  - Labour in favour ‘in principle’ but some dissenters
  - Conservatives – mostly Eurosceptic – some pro
  - Liberal Democrats – the most ‘pro’

- Businesses – divided
  - Foreign investors – more pro
  - Big companies – more pro than anti
  - Small companies – more anti than pro

- Public opinion
  - Heavily anti – how deeply held?

Europhile and Eurosceptic views

- Pooling of sovereignty – gains influence
- Left behind in EU
- Economic gains
- Commitment to integration
- Loss of sovereignty
- Managing OK outside
- Misconceived and too risky
- Identity concerns

Sweden and Denmark

- “Nordic scepticism”

- Referenda defeat pushed membership back

- Politicians wary of further defeats

- Difficult to justify given consistently better performance of outsider economies in recent years
• In 1995 Sweden joined the EU and its Accession Treaty was approved by referendum (52% in favour of the treaty).

• A referendum held in September 2003 saw 56.1 percent vote against the eurozone.

Source: IMF April 2013 World Economic Outlook