MONEY MAKES THE WORLD GO ROUND:
GEOGRAPHIES OF GLOBAL FINANCE

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I. Historic Context

- finance has a long history of being globalized
17th c. Amsterdam
18th-19th c. London
Adoption of gold standard

The International Monetary System 1870

- Gold Standard Countries
- Bimetallic countries
- Countries on silver
- Fiat countries
-late 19th c. U.S. banking became big business

J.P. Morgan
1947-1973 Bretton-Woods Agreement:

- IMF and World Bank
- fixed exchange rates pegged to $US, and $US to gold ($35/oz)
1970s-90s transformed financial markets: a. collapse of Bretton-Woods agreement and shift from fixed to floating exchange rates
b. petrocrises, deindustrialization, rise of NICs
c. explosive rise in Third World and U.S. debt


(Real $1995 Billions)
Explosive growth of U.S. debt

U.S. trade deficit now approaching $800 billion!
U.S. National Debt
In Trillions of Dollars, Source: Treasury Department
OUR NATIONAL DEBT:
$11,552,609,073,584
YOUR Family share $97,678
THE NATIONAL DEBT CLOCK
To fund its debt, U.S. relies heavily on foreign capital.
d. global wave of deregulation
Deregulation led to a wave of bank failures and mergers.

Bank failures have been rare in recent years.

Source: Federal Deposit Insurance Corporation.
e. microelectronics revolution
fiber optics
Deregulation and telecommunications afforded financial capital unprecedented mobility.

A Stylized View of Capital Mobility in Modern History

Gold Standard 1880–1914

Interwar 1914–45

Bretton Woods 1945–71

Float 1971–2000

II. Consequences
1. Electronic Funds Transfer Systems
   - digitization -> money and information became 2 sides of same coin
-huge pools of extremely liquid funds circle globe electronically

-banks can take advantage of interest rate and exchange rate differentials, avoid political unrest
- World's forex markets *alone* trade $2 trillion daily (compared to $40 billion in goods & services)
Foreign Exchange Turnover by Market

Average daily turnover

US$tr

2005 2006 2007 2008 2009

UK US Japan Singapore Australia Canada

0 1 2 3
-90% of currency trades are $U.S.
-national borders mean little in this context

Money and the evaporating national border.
-difficult to control national money supplies
-> erosion of monetary controls to control interest, inflation, and exchange rates
E-cash is one manifestation of a global economy that is constructed in cyberspace rather than geographic space. The fundamental problems that e-cash poses for governance result from this disconnect between electronic markets and political geography. The very idea of controlling the money supply, for example, assumes that geography provides a relevant means of defining the scope of the market. It assumes that economic borders are effective, that the flow of money across them can be monitored and controlled, and that the volume of money within a fixed geographic area is important. All of those assumptions are increasingly questionable in a digital world economy.
2. Securities markets:
-volume and volatility rose exponentially
Total market value of U.S. stocks as a percent of GNP*

Peak: 190%
March 2000

75%
Jan. 23, 2009 (estimate)
<table>
<thead>
<tr>
<th>Region</th>
<th>Foreign-owned equity as % of total equity</th>
<th>Foreign-owned equity, $ billion</th>
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<td>Eurozone</td>
<td>12</td>
<td>142, 3,494</td>
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<td>United Kingdom</td>
<td>13</td>
<td>114, 1,427</td>
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<td>Emerging Asia</td>
<td>6</td>
<td>13, 540</td>
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-growth of electronic screen based trading
-electronic trading threatens trading floors
3. Offshore Banking
Caribbean, European, Middle East, SE Asian, S. Pacific microstates
-driving incentive is favorable tax laws
-topography of regulation: as technical barriers to capital flow decrease, regulatory ones increase in importance
-concerns over tax evasion, money laundering
very few real impacts: in Caymans, 538 banks employ only 1,000 people
4. Global Cities
-New York, London, Tokyo dominate world economy
-command/control centers of global economy:
(a) finance, banking, securities
(b) specialized expertise in business services
(c) centers of media, fashion, tourism
Global cities are more connected with each other than their own nations
-access to clients & suppliers, specialized labor, information, infrastructure
face-to-face communication is essential for non-routine functions
The end of geography?

No, its reconfiguration!
5. Globalization of Clerical Work
Large service firms divide labor force into headquarters and back offices
-data entry & call centers: billing, payroll, insurance claims, magazine subscriptions
- unskilled clerical jobs, primarily women, little client contact
-traditionally, HQ and back offices were integrated in same building
-rising central city rents and shortages of qualified labor -> incentive to relocate
-most relocations are to suburbs
-some fled large cities to South and Midwest
International back office relocations:
- outsourcing of clerical functions
- primary motivation is low labor costs
Bangalore call centers, data entry, & software production
More ‘Can I Help You?’ Jobs Migrate From U.S. to India

By AMY WALDMAN

BOMBAY — In the early morning hours of May 1, American welfare recipients reached for their phones, dialing toll-free to check on their next infusion of funds.

On a steamy Indian late afternoon in her air-conditioned cubicle here, Manisha Martin was waiting for them.

Without a break, the display panel on her phone lit up. Kansas calling. Arizona. Alabama. Tennessee.

“Hi, this is Megan,” she said to each caller. “How can I help you?”

In mostly southern drawls she had once struggled to understand, they asked about the balances on their electronic benefit cards, which work much like those used at A.T.&M.’s.

“You food stamp balance is 48 cents,” she told one caller.

She activated new cards, or told callers to speak to their caseworker. If they unleashed angry tirades, she tried to understand. When young single mothers cried, she listened.

Her accent, pleasant and neutral, was hard to place. When callers asked her location, she demurred. If they knew where she was, said Ms. Martin, 27, “they would drop off their savings.”

Some New Jersey officials say they just about did that when they learned that a contractor had arranged for Bombay operators to handle calls from the state’s welfare recipients. County welfare directors complained. A state legislator, Shirley Turner, proposed a bill requiring that workers hired under state contracts for American citizens or legal aliens, or fill a specialty niche Americans could not, prompting at least four other states to consider similar bills.

Much as the exodus of manufacturing jobs abroad did in decades past, in providing service or knowledge-intensive jobs to countries like India is causing fears of displacement in the United States and elsewhere.

A study Forrester Research of Cambridge, Mass., estimated that this trend of labor migration annually pushes companies to find new ways to cut costs. American workers say the same economy is the reason they need the jobs to stay home.

“People are feeling insecure,” said Kieran Kamrani, president of India’s National Association of Software and Service Companies. “Unemployment is the major concern in those states.”

Ultimately, Ms. Martin’s company, the eFunds Corporation, based in Scottsdale, Ariz., reached an agreement with New Jersey’s Department of Human Services to move the work to the state. It created 12 jobs in New Jersey — at an additional cost to the state of $1.2 million until the contract ends in August 2004.

“For us it was about the consistency of the message,” said Andy Williams, a department spokesman. The company is telling welfare recipients that they have to work or try to, he noted, “so to have a contract where you’re exporting service-sector jobs — it just seemed we were working against our clients’ interests.”

But few corporations will make similar accommodations. “Even though the government of New Jersey doesn’t want to manage contracts, companies do,” observed Pradeep Saxena, president of eFunds International.

American companies are using Indian labor — often working around the clock — to do research and development, prepare tax returns, evaluate health insurance claims, transcribe doctors’ medical notes, analyze financial data, dun for overdue bills, read CAT scans, create presentations for Manhattan investment banks and much more.

Seeking both to increase senior analysts’ productivity and to lower costs, J. P. Morgan Chase & Co. is planning to hire 40 junior analysts and support staff in Bombay to set up an equity research department there. It also plans to increase the several hundred employees doing back-office work at its Technology

The place is Bombay, but Manisha Martin, 27, takes calls from welfare recipients who are in the United States, through she added that allowing Indians to handle simpler reservations would also free American agents for more complex calls.

The move had not prompted any layoffs, she added, although a company news release announcing the arrangement said it would not affect domestic employment "at this time."

The Bombay operations of eFunds include selling thousands of products to American institutional viewers, back-office work for a British telecom company, and providing customers’ bounced-check records to American retailers. It provides customer service help to welfare and food-stamp recipients in 19 American states, using agents who — said Dinesh Bhatia, the head of eFunds in India — are trained in empathy.

Ms. Martin and others like her earn just over $200 a month, less than the American welfare recipients receive but well over the $500 per capita annual income in India.

For more challenging jobs, the savings to American companies are even greater.

Despite the New Jersey bill, the threat is less legal than political. "You can’t really outlaw outsourcing," said Jagdish N. Bhagwati, a professor of economics and political science at Columbia University. "Outsourcing is just trade."

But American unions, particularly the Communications Workers of America, have begun a campaign against the practice. When high-tech offshoring began, said Marcus Courtney, the president of the Washington Alliance of Technology Workers, he and others thought it would be confined to technical support. "People never imagined you would literally be able to export the entire production process overseas," he said.

Similar protests have come from the Communication Workers Union in Britain against the British Telecom Group’s deal with an Indian software technology company.

At the same time, in the face of...
In New York Tickets, Ghana Sees Orderly City

By ROBERT F. WORTH

If you are caught playing your radio too loudly in Times Square, selling ice cream while parked in a Harlem crosswalk or dumping your kitchen trash in Prospect Park, your ticket does not just go to City Hall to be processed. It goes to Ghana. Just days after the tickets are written out on New York City streets, they are scanned and sent as digital photographs to computers in a small office in downtown Accra, Ghana’s hot and crowded capital. Those workers try to make out the unfamiliar street names (Dyckman, Flatbush, Hudson) while transcribing the handwritten scrawl of New York police officers into searchable databases. And through the alchemy of globalization, the tickets that bring only aggravation on this side of the Atlantic become snapshots that fire imaginations more than 5,000 miles away. The Ghanaians can see that the city is orderly, at least in its grid. It’s easy to look at New York and see where you are going,” said Christine Mensah, 35, a manager. “It’s not like Ghana. With a map you can go anywhere.”

And they imagine that the city is sparkling clean. Why else would people be given tickets for not cleaning up after their dogs? "I know that New York is beautiful: the streets, the flowers, and the people too," said Susanna Okine, 26, whose only trip to the city is the maps she consults daily at work. "I can also testify that it must smell better than Accra." Ms. Okine and her 40-odd co-workers spend their days typing out the contents of the city’s environmental violation tickets for their employer, Data Management Internationale, a Delaware-based firm that has been digitizing information for New York City since March. Before that, the work was done in India and Mexico for a Michigan-based company called Lason.

Charles Sterken, chief of staff for the city’s Department of Environmental Protection, which signed a two-year, $182,000 contract with Data Management, said he had no idea the work was being done in Ghana. Although many United States corporations and some other cities rely on similar back offices to input data in distant countries, several current and former city officials said they were unaware any city contract had ever been handed abroad.

It may not last much longer. Once a reporter started asking about the Ghana contract, Data Management said it planned to start handling New York City’s business domestically and have the Accra office work on other accounts. The company worries that it will be perceived in New York as taking jobs from American workers, said William Swezey, a manager at Data Management.

From New York’s perspective, it hardly matters whether the work is done in Africa or Delaware: the contract is simply a way to process the half-million environmental tickets the city hands out every year. And either way, the Ghanaians are not likely to lose their jobs. The company is planning to expand its operation there, said Mark Davies, an American who leases the Accra office space to Data Management.

It is good work, by Ghanaian standards. The typists earn $40,000 a month (35% of minimum wage). They are trained by the company’s accra office in Accra, Accra. The greatest challenge, several employees said, is accurately deciphering the handwritting on the tickets, who are some of the workers are some of the workers.

From left, Christine Mensah, Susanna Okine and Nora Kraku, taking a break from their jobs processing New York City tickets at Data Management Internationale in the Busym Internet building, below, in Accra, Ghana. The office is in a two-story Internet center called Busym Internet that was founded by Mr. Davies, a former dot-com executive who fell in love with Africa on a backpacking trip several years ago. "Bee" at the locals call it, is in the former Internet..tions, the Internet has been embraced ardently in Ghana. Five years ago, there were no Internet cafes in Ghana; now there are at least 250 in Accra, Mr. Davies said. "You can go down an alley that’s not paved, and where women are selling rice on the corner, and there’s an Internet cafe," said Anthony Swezey, the brother of William Swezey and manager of the Accra office. He said the company chose Ghana because it is safe and the government is democratic and has been stable for 20 years. And, of course, because labor in Ghana is far cheaper than in the United States. Data Management workers said they were surprised — but grateful — for New Yorkers’ apparent willingness to break the law. "They know the rules and they still are always violating them," Mr.
Hello, India? I Need Help With My Math

In the Spread of Globalization, Personal Chores Move Offshore

By STEVE LOHR

Adrienne Yamaki, a 32-year-old management consultant in New York, travels constantly and logs 72-hour workweeks. So to eke out more time for herself, she routinely farms out the administrative chores of her life — making travel arrangements, hair appointments and restaurant reservations and buying theater tickets — to a personal assistant service, in India.

Kenneth Tham, a high school sophomore in Arcadia, Calif., strives to improve his grades and scores on standardized tests. Most afternoons, he is tutored remotely by an instructor speaking to him on a voice-over-Internet headset while he sits at his personal computer giving homework on-screen. The tutor is in India.

The Bangladeshi is the latest development in offshore outsourcing.

The first wave of slicing up services work and sending it abroad has been all about business operations. Computer programming, call centers, product design and back-office jobs like accounting and billing have to some degree migrated abroad, mainly to India. The Internet, of course, makes it possible, while lower wages in developing nations make outsourcing attractive to corporate America.

The second wave, according to some entrepreneurs, venture capitalists and offshore veterans, will be the globalization of consumer services. People like Ms. Yamaki and Mr. Tham, they predict, will be the early customers in a market that will one day include millions of households in the United States and other nations.

They foresee an array of potential services, beyond tutoring and personal assistance like health and nutrition...

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Ogre to Slay? A Specialist In China Is Standing By

By DAVID BARBOZA

FUZHOU, China — One of China’s newest factories operates here in the basement of an old warehouse. Posters of World of Warcraft and Magic: The Gathering hang above a corps of young people glued to their computer screens, pounding away at their keyboards in the latest hustle for money.

The people working at this clandestine locale are “gold farmers.”

Every day, in 12-hour shifts, they “play” computer games by killing onscreen monsters and winning battles, harvesting artificial gold coins and other virtual goods as rewards that, as it turns out, can be transformed into real cash.

That is because, from Seoul to San Francisco, affluent online gamers who lack the time and patience to work their way up to the higher levels of gamingdom are willing to pay the young Chinese here to play the early rounds for them.

“For 12 hours a day, 7 days a week, my colleagues and I are killing monsters,” said a 23-year-old gamer who works here in this makeshift factory and goes by the online code name

Young Chinese men playing video games in an online gaming center, one of hundreds that take fees to help players reach higher levels.
Outsourcing Comes Full Circle
As India Starts to Export Jobs

By ANAND GIRIDHARADAS

MYSORE, India — Thousands of Indians report to Infosys Technologies’ campus here to learn the finer points of programming. Lately, though, packs of fair-skinned foreigners have been roving the manicured lawns, too.

Many of them are recent American college graduates, and some have even turned down job offers from coveted employers like Google. Instead, they accepted a novel assignment from Infosys, the Indian technology giant, here for six months of training, then return home to work in the company’s American back offices.

India is outsourcing outsourcing.

One of the constants of the global economy has been companies moving their tasks — and jobs — to India. But rising wages and a stronger currency here, demands for workers who speak languages other than English, and competition from countries looking to emulate India’s success as a back office — including China, Morocco and Mexico — are challenging that model.

Many executives here acknowledge that outsourcing, having gained most heavily on India, will increasingly shrink tasks around the globe. Or, as Ashok Vemuri, an Infosys senior vice president, put it, the future of outsourcing is “to take the work from any part of the world and do it in any part of the world.”

To fight on the shifting terrain, and to beat back emerging rivals, Indian companies are hiring workers and opening offices in developing countries themselves, before their clients do.

In May, Tata Consultancy Service, Infosys’s Indian rival, announced a new back office in Guadalajara, Mexico; Tata already has 5,000 workers in Brazil, Chile and Uruguay. Cognizant Technology Solutions, with most of its operations in India, has now opened back offices in Phoenix and Shanghai.

Wipro, another Indian technology company, has outsourcing offices in Canada, China, Portugal, Romania and Saudi Arabia, among other locations.

And last month, Wipro said it was opening a software development center in Atlanta that would hire 500 programmers in three years.

In a poetic reflection of outsourcing’s new face, Wipro’s chairman, Azim Premji, told Wall Street analysts this year that he was considering hubs in Idaho and Virginia, in addition to Georgia, to take advantage of American “states which are less developed.” (India’s per capita income is less than $1,000 a year.)

For its part, Infosys is building a whole archipelago of back offices — in Mexico, the Czech Republic, Thailand and China, as well as low-cost regions of the United States.

The company seeks to become a global matchmaker for outsourcing: any time a company wants work done somewhere else, even just down the street, Infosys wants to get the call.

It is a peculiar ambition for a company that symbolizes the flow of tasks from the West to India.

Most of Infosys’ 75,000 employees are Indians, in India. They account for most of the company’s $3.1 billion in sales in the year that ended March 31, from work for clients like Bank of America and Goldman Sachs.

"India continues to be the No. 1 location for outsourcing," S. Gopalakrishnan, the company’s chief executive, said in a telephone interview.

And yet the company opened a Philippines office in August and, a month earlier, bought back office projects on the condition that clients not be identified.

In one project, an American bank wanted a computer system to handle a loan program for Hispanic customers. The system had to work in Spanish. It also had to take into account variables particular to Hispanic clients: many, for instance, remit money to families abroad, which can affect their bank balances. The bank thought a Mexican team would have the right language skills and grasp of cultural nuances.

But instead of going to a Mexican vendor, or to an American vendor with Mexican operations, the bank retained three dozen engineers at Infosys, which had recently opened shop in Monterrey, Mexico.

Such is the new outsourcing: A company in the United States pays an Indian vendor 7,000 miles away to supply it with Mexican engineers working 150 miles south of the United States border.

In Europe, too, companies now hire Infosys to manage back offices in their own backyards. When an American manufacturer, for instance, needed a system to handle bills from multiple vendors supplying its factories in different European countries, it turned to the Indian company.

The manufacturer’s different locations scan the invoices and send them to an office of Infosys, where each bill is passed to the appropriate vendor.

The end result is that the company is outsourcing outsourcing...