

KEY ISSUE 3

Where Are Business Services Distributed?

- Hierarchy of Business Services
- Business Services in Developing Countries
- Economic Base of Settlements

Learning Outcome 12.3.1

Describe the factors that are used to identify global cities.

Every urban settlement provides consumer services to people in a surrounding area, but not every settlement of a given size has the same number and types of business services. Business services disproportionately cluster in a handful of urban settlements, and individual settlements specialize in particular business services.

Hierarchy of Business Services

Geographers identify a handful of urban settlements known as global cities (also called world cities) that play an especially important role in global business services. Global cities can be subdivided according to a number of criteria.

BUSINESS SERVICES IN GLOBAL CITIES

Global cities are most closely integrated into the global economic system because they are at the center of the flow of information and capital. Business services, including law, banking, insurance, accounting, and advertising, concentrate in disproportionately large numbers in global cities:

- Headquarters of large corporations are clustered in global cities, and shares of these corporations are bought and sold on stock exchanges located in global cities. Obtaining information in a timely manner is essential in order to buy and sell shares at attractive prices. Executives of manufacturing firms meeting far from the factories make key decisions concerning what to make, how much to produce, and what prices to charge. Support staff also far from the factory accounts for the flow of money and materials to and from the factories. This work is done in offices in global cities.
- Lawyers, accountants, and other professionals cluster in global cities to provide advice to major corporations and financial institutions. Advertising agencies, marketing firms, and other services concerned with style and fashion locate in global cities to help corporations

anticipate changes in taste and to help shape those changes.

- As centers for finance, global cities attract the headquarters of the major banks, insurance companies, and specialized financial institutions where corporations obtain and store funds for expansion of production.

Global cities are divided into three levels: alpha, beta, and gamma. These three levels in turn are further subdivided (Figure 12-20). A combination of economic, political, cultural, and infrastructure factors are used to identify global cities and to distinguish among the various ranks:

- **Economic factors.** Economic factors include number of headquarters for multinational corporations, financial institutions, and law firms that influence the global economy.
- **Political factors.** Political factors include hosting headquarters for international organizations and capitals of countries that play a leading role in international events.
- **Cultural factors.** Cultural factors include presence of renowned cultural institutions, influential media outlets, sports facilities, and educational institutions.
- **Infrastructural factors.** Infrastructural factors include a major international airport, health-care facilities, and advanced communications systems.

The same hierarchy of business services can be used within countries or continents. In North America, for example, below the alpha++ city (New York) and the alpha+ city (Chicago) are 4 alpha cities, 5 alpha- cities, 11 beta cities (including + and -), and 17 gamma cities (including + and -) (Figure 12-21).

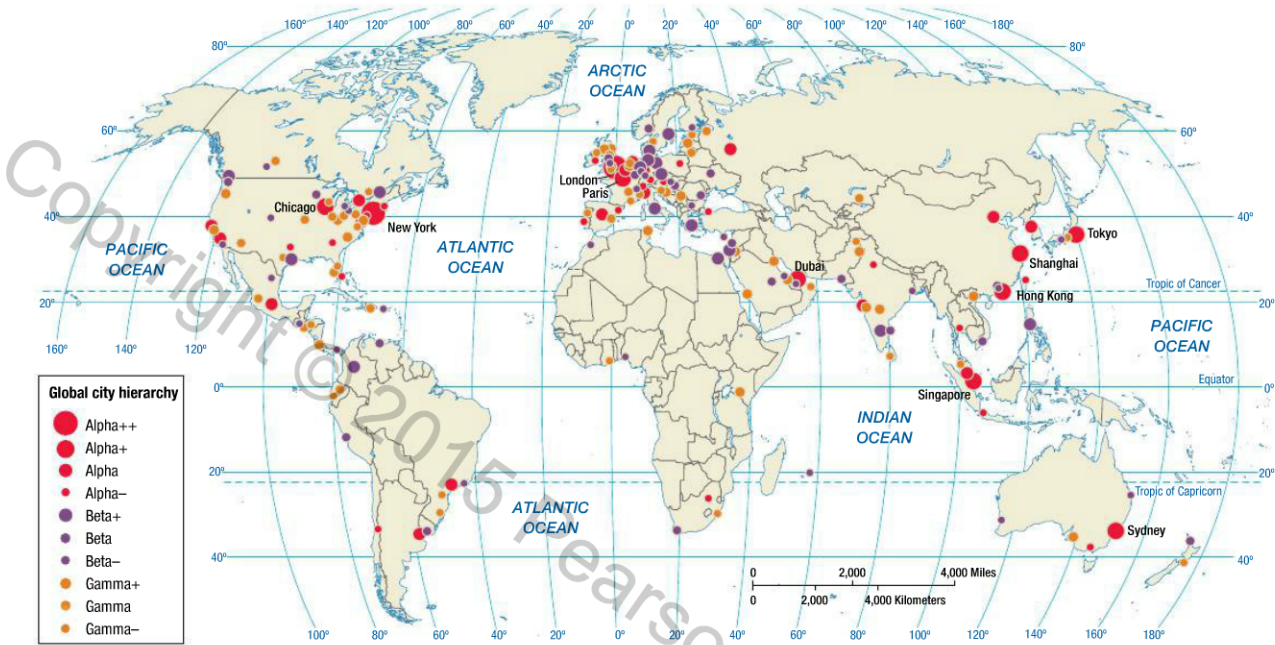
New forms of transportation and communications were expected to reduce the need for clustering of services in large cities:

- The telegraph and telephone in the nineteenth century and the computer in the twentieth century made it possible to communicate immediately with coworkers, clients, and customers around the world.
- The railroad in the nineteenth century and the motor vehicle and airplane in the twentieth century made it possible to deliver people, inputs, and products quickly.

To some extent, economic activities have decentralized, especially manufacturing, but modern transportation and communications reinforce rather than diminish the primacy of global cities in the world economy. Transportation services converge on global cities. Global cities tend to have busy harbors and airports and lie at the junction of rail and highway networks.

Pause and Reflect 12.3.1

List the alpha, beta, and gamma cities that are nearest to you. How would you expect an alpha city such as Chicago to differ from Houston (beta) and Phoenix (gamma)?



▲ **FIGURE 12-20 GLOBAL CITIES** Global cities are centers for the provision of services in the global economy. London and New York, the two dominant global cities, are ranked as alpha++. Other alpha, beta, and gamma global cities play somewhat less central roles in the provision of services than the two dominant global cities. Cities ranked alpha++ and alpha+ are labeled on the map.

CONSUMER AND PUBLIC SERVICES IN GLOBAL CITIES

Because of their large size, global cities have retail services with extensive market areas, but they may have even more retailers than large size alone would predict. A disproportionately large number of wealthy people live in global cities, so luxury and highly specialized products are especially likely to be sold there. Global cities typically offer the most plays, concerts, operas, night clubs, restaurants, bars, and professional sporting events. They contain the largest

libraries, museums, and theaters. London presents more plays than the rest of the United Kingdom combined, and New York nearly has more theaters than the rest of the United States combined. Leisure services of national significance are especially likely to cluster in global cities, in part because they require large thresholds and large ranges and in part because of the presence of wealthy patrons.

Global cities may be centers of national or international political power. Most are national capitals, and they contain mansions or palaces for the head of state, imposing structures for the national legislature and courts, and offices for the government agencies. Also clustered in global cities are offices for groups having business with the government, such as representatives of foreign countries, trade associations, labor unions, and professional organizations. Unlike other global cities, New York is not a national capital. But as the home of the world's major international organization, the United Nations, it attracts thousands of diplomats and bureaucrats, as well as employees of organizations with business at the United Nations. Brussels is a global city because it is the most important center for European Union activities.



◀ **FIGURE 12-21 GLOBAL CITIES IN NORTH AMERICA** Atop the hierarchy of business services are New York and Chicago.

Business Services in Developing Countries

Learning Outcome 12.3.2

Explain the two types of business services in developing countries.

In the global economy, developing countries specialize in two distinctive types of business services: offshore financial services and back-office functions. These businesses tend to locate in developing countries for a number of reasons, including the presence of supportive laws, weak regulations, and low-wage workers.

OFFSHORE FINANCIAL SERVICES

Small countries, usually islands and microstates, exploit niches in the circulation of global capital by offering offshore financial services. Offshore centers provide two important functions in the global circulation of capital:

- **Taxes.** Taxes on income, profits, and capital gains are typically low or nonexistent. Companies incorporated in an offshore center also have tax-free status, regardless of the nationality of the owners. The United States loses an estimated \$70 billion in tax revenue each year because companies operating in the country conceal their assets in offshore tax havens.

- **Privacy.** Bank secrecy laws can help individuals and businesses evade disclosure in their home countries. People and corporations in litigious professions, such as a doctor or lawyer accused of malpractice or the developer of a collapsed building, can protect some of their assets from lawsuits by storing them in offshore centers, as can a wealthy individual who wants to protect assets in a divorce. Creditors cannot reach such assets in bankruptcy hearings. Short statutes of limitation protect offshore accounts from long-term investigation.

The privacy laws and low tax rates in offshore centers can also provide havens to tax dodges and other illegal schemes. By definition, the extent of illegal activities is unknown and unknowable.

The International Monetary Fund, the United Nations, and the Tax Justice Institute identify the following places, among others, as offshore financial services centers (Figure 12-22):

- **Dependencies of the United Kingdom**, such as Anguilla, Cayman Islands, Montserrat, and the British Virgin Islands in the Caribbean; Guernsey/Sark/Alderney, Isle of Man, and Jersey in the English Channel; and Gibraltar, off Spain.
- **Dependencies of other countries**, such as Cook Island and Niue, controlled by New Zealand; Aruba, Curaçao, and Sint Maarten, controlled by the Netherlands; and Hong Kong and Macau, controlled by China.
- **Independent island countries**, such as The Bahamas, Barbados, Dominica, Grenada, St. Kitts & Nevis, St. Lucia,



▲ **FIGURE 12-22 OFFSHORE FINANCIAL SERVICE CENTERS** Offshore financial service centers include microstates and dependencies of other countries.

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St. Vincent & the Grenadines, and Turks & Caicos in the Caribbean; the Marshall Islands, Nauru, Samoa, and Vanuatu in the Pacific Ocean; and Mauritius and Seychelles in the Indian Ocean.

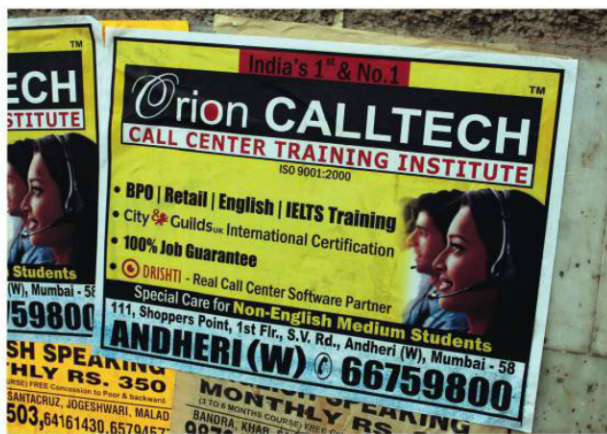
- **Other independent countries**, such as Andorra, Cyprus, Ireland, Liechtenstein, Luxembourg, Monaco, San Marino, and Switzerland in Europe; Belize, Costa Rica, Panama, and Uruguay in Latin America; Liberia in Africa; and Bahrain, Brunei, Lebanon, Malaysia, New Zealand, the Philippines, Singapore, and the United Arab Emirates in Asia.

A prominent example is the Cayman Islands, a British Crown Colony in the Caribbean near Cuba. The Caymans comprise three main islands and several smaller ones totaling around 260 square kilometers (100 square miles), with 40,000 inhabitants. Several hundred banks with assets of more than \$1 trillion are legally based in the Caymans. Most of these banks have only a handful of people, if any, actually working in the Caymans.

In the Caymans, it is a crime to discuss confidential business—defined as matters learned on the job—in public. Assets placed in an offshore center by an individual or a corporation in a trust are not covered by lawsuits originating in the United States, Britain, or other service centers. To get at those assets, additional lawsuits would have to be filed in the offshore centers, where privacy laws would shield the individual or corporation from undesired disclosures.

BUSINESS-PROCESS OUTSOURCING

The second distinctive type of business service found in peripheral regions is back-office functions, also known as business-process outsourcing (BPO). Typical back-office functions include insurance claims processing, payroll management, transcription work, and other routine clerical activities (Figure 12-23). Back-office work also includes centers for responding to billing inquiries related to credit cards, shipments, and claims, or technical inquiries related to installation, operation, and repair.



▲ FIGURE 12-23 CALL CENTER Young Indians are recruited to work in call centers.

Traditionally, companies housed their back-office staff in the same office building downtown as their management staff, or at least in nearby buildings. A large percentage of the employees in a downtown bank building, for example, would be responsible for sorting paper checks and deposit slips. Proximity was considered important to assure close supervision of routine office workers and rapid turnaround of information.

Rising rents downtown have induced many business services to move routine work to lower-rent buildings elsewhere. In most cases, sufficiently low rents can be obtained in buildings in the suburbs or nearby small towns. However, for many business services, improved telecommunications have eliminated the need for spatial proximity.

Selected developing countries have attracted back offices for two reasons related to labor:

- **Low wages.** Most back-office workers earn a few thousand dollars per year—higher than wages paid in most other sectors of the economy, but only one-tenth the wages paid for workers performing similar jobs in developed countries. As a result, what is regarded as menial and dead-end work in developed countries may be considered relatively high-status work in developing countries and therefore able to attract better-educated, more-motivated employees in developing countries than would be possible in developed countries.
- **Ability to speak English.** Many developing countries offer lower wages than developed countries, but only a handful of developing countries possess a large labor force fluent in English. In Asia, countries such as India, Malaysia, and the Philippines have substantial numbers of workers with English-language skills, a legacy of British and American colonial rule. Major multinational companies such as American Express and General Electric have extensive back-office facilities in those countries.

The ability to communicate in English over the telephone is a strategic advantage in competing for back offices with neighboring countries, such as Indonesia and Thailand, where English is less commonly used. Familiarity with English is an advantage not only for literally answering the telephone but also for gaining a better understanding of the preferences of American consumers through exposure to English-language music, movies, and television.

Workers in back offices are often forced to work late at night, when it's daytime in the United States, peak demand for inquiries. Many employees must arrive at work early and stay late because they lack their own transportation, so they depend on public transportation, which typically does not operate late at night. Sleeping and entertainment rooms are provided at work to fill the extra hours.

Pause and Reflect 12.3.2

When it is 3 P.M. on a Tuesday where you live, what time and day is it at a call center in India? Refer to Figure 1-11.

Economic Base of Settlements

Learning Outcome 12.3.3

Explain the concept of economic base.

A settlement's distinctive economic structure derives from its **basic industries**, which export primarily to consumers outside the settlement. **Nonbasic industries** are enterprises whose customers live in the same community—essentially, consumer services. A community's unique collection of basic industries defines its **economic base**.

A settlement's economic base is important because exporting by the basic industries brings money into the local economy, thus stimulating the provision of more nonbasic consumer services for the settlement. New basic industries attract new workers to a settlement, and these workers bring their families with them. The settlement then attracts additional consumer services to meet the needs of the new workers and their families. Thus a new basic industry stimulates establishment of new supermarkets, laundromats, restaurants, and other consumer services. But a new nonbasic service, such as a supermarket, will not induce construction of new basic industries.

A community's basic industries can be identified by computing the percentage of the community's workers employed in different types of businesses. The percentage of workers employed in a particular industry in a settlement is then compared to the percentage of all workers in the country employed in that industry. If the percentage is much higher in the local community, then that type of business is a basic economic activity.

SPECIALIZATION OF CITIES IN DIFFERENT SERVICES

Settlements in the United States can be classified by their type of basic activity (Figure 12-24). Each type of basic activity has a different spatial distribution. The concept of basic industries originally referred to manufacturing. Some communities specialize in durable manufactured goods, such as steel and automobiles, others in nondurable manufactured goods, such as textiles, apparel, food, chemicals, and paper. Most communities that have an economic base of manufacturing durable goods are clustered between northern Ohio and southeastern Wisconsin, near the southern Great Lakes. Nondurable manufacturing industries, such as textiles, are clustered in the Southeast, especially in the Carolinas.

In a postindustrial society, such as the United States, increasingly the basic economic activities are in business, consumer, or public services. Geographers Ó hUallacháin and Reid have documented examples of settlements that specialize in particular types of services. Examples of settlements specializing in business services include:

- **General business:** Large metropolitan areas, especially Chicago, Los Angeles, New York, and San Francisco.
- **Computing and data processing services:** Boston and San Jose.
- **High-tech industries support services:** Austin, Orlando, and Raleigh-Durham.
- **Military activity support services:** Albuquerque, Colorado Springs, Huntsville, Knoxville, and Norfolk.
- **Management-consulting services:** Washington, D.C.

Examples of settlements specializing in consumer services include:

- **Entertainment and recreation:** Atlantic City, Las Vegas, and Reno.
- **Medical services:** Rochester, Minnesota.

Examples of settlements specializing in public services include:

- **State capitals:** Sacramento and Tallahassee.
- **Large universities:** Tuscaloosa.
- **Military bases:** Arlington.

Although the populations of cities in the South and West have grown more rapidly in recent years, Ó hUallacháin and Reid found that cities in the North and East have expanded their provision of business services more rapidly. Northern and eastern cities that were once major manufacturing centers have been transformed

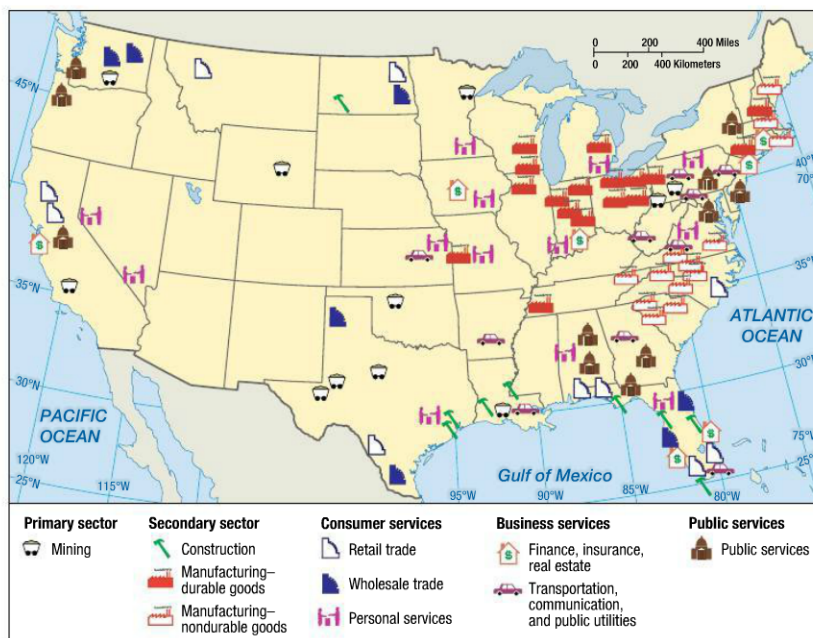


FIGURE 12-24 ECONOMIC BASE OF U.S. CITIES Cities specialize in different economic activities.

into business service centers. These cities have moved more aggressively to restructure their economic bases to offset sharp declines in manufacturing jobs.

Steel was once the most important basic industry of Cleveland and Pittsburgh, but now health services such as hospitals and clinics and medical high-technology research are more important. Baltimore once depended for its economic base on manufacturers of fabricated steel products, such as Bethlehem Steel, General Motors, and Westinghouse. The city's principal economic asset was its port, through which raw materials and fabricated products passed. As these manufacturers declined, the city's economic base turned increasingly to services, taking advantage of its clustering of research-oriented universities, especially in medicine. The city is trying to become a center for the provision of services in biotechnology.

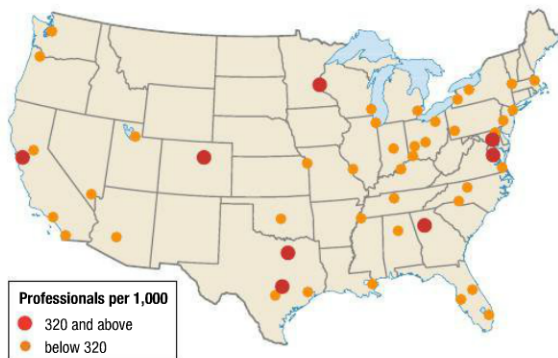
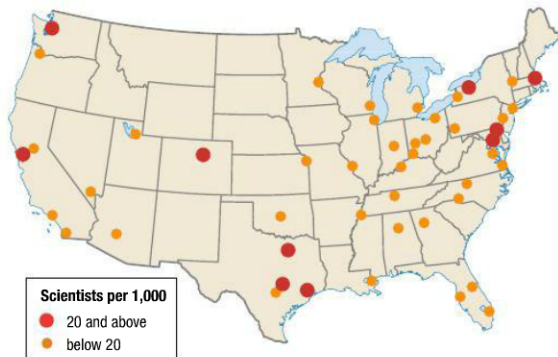
DISTRIBUTION OF TALENT

Individuals possessing special talents are not distributed uniformly among cities. Some cities have a higher percentage of talented individuals than others (Figure 12-25). To some extent, talented individuals are attracted to the cities with the most job opportunities and financial incentives. But the principal enticement for talented individuals to cluster in some cities more than others is cultural rather than economic, according to research conducted by

Richard Florida. Individuals with special talents gravitate toward cities that offer more cultural diversity.

Florida measured talent as a combination of the percentage of people in the city with college degrees, the percentage employed as scientists or engineers, and the percentage employed as professionals or technicians. He used three measures of cultural diversity: the number of cultural facilities per capita, the percentage of gay men, and a "coolness" index. The "coolness" index, developed by *POV Magazine*, combined the percentage of population in their 20s, the number of bars and other nightlife places per capita, and the number of art galleries per capita (Figure 12-26). A city's gay population was based on census figures for the percentage of households consisting of two adult men. Two adult men who share a house may not be gay, but Florida assumed that the percentage of adult men living together who were gay did not vary from one city to another.

Florida found a significant positive relationship between the distribution of talent and the distribution of diversity in the largest U.S. cities. In other words, cities with high cultural diversity tended to have relatively high percentages of talented individuals. Washington, San Francisco, Boston, and Seattle ranked among the top in both talent and diversity, whereas Las Vegas was near the bottom in both. Attracting talented individuals is important for a city because these individuals are responsible for promoting economic innovation. They are likely to start new businesses and infuse the local economy with fresh ideas.

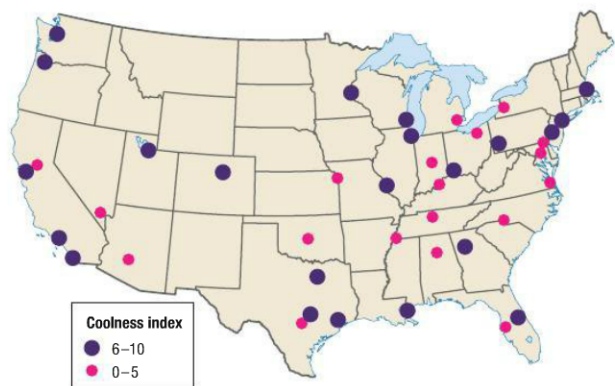


▲ FIGURE 12-25 GEOGRAPHY OF TALENT Some cities have concentrations of scientists and professionals.

CHECK-IN: KEY ISSUE 3

Where Are Business Services Distributed?

- ✓ Business services cluster in global cities.
- ✓ Developing countries provide offshore financial services and business-process outsourcing.
- ✓ Communities specialize in the provision of particular services; the specialized services constitute a community's economic base.



▲ FIGURE 12-26 GEOGRAPHY OF CULTURAL DIVERSITY The map is based on a "coolness" index developed by *POV Magazine*.