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Remaking the Global Economy: U.S. Retailers and Asian Manufacturers*

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Remaking the Global Economy: U.S. Retailers and Asian Manufacturers

Please note: Having just been added to the agenda, I will not have time to prepare a formal statement. I am, however, submitting a longer paper, under the same title, to the Commission for its reference. All the comments made in this presentation are documented in that paper. This summary statement will consist of selected excerpts from that paper.

The principal thesis of my presentation is that the single most important driver of China's growth is that China has become the world's chief site for sourcing manufactured consumer products. The most important firms that source goods from China are the large retailers and brand-name merchandisers, which are mainly located in the United States. Among the most important manufacturers in China making export consumer goods are firms owned by businesspeople from Taiwan, Hong Kong, South Korea, and Japan, most of whom have relocated their firms to China in the last fifteen years. My presentation will demonstrate and explain these underlying trends. The first step in the explanation is to outline the transformation of retailing in the United States that begins after World War II.

The National Organization of U.S. Retailing between 1945 and 1965

The consolidation and concentration in retailing in the United States occurred at different times and for different reasons than had occurred in manufacturing. In the decades before World War II, the manufacturing sectors of the American economy had already gone through several periods of mergers and massive consolidations that not only resulted in vertical and horizontal control over processes of production, but, by virtue of the economic power of manufacturing firms, also allowed them to control the distribution and retailing of their products as well. For instance, the automobile manufacturers developed franchised retail outlets, as did some consumer appliances makers (e.g., RCA and GE). More often, manufacturers dealt directly with wholesalers that in turn distributed products to many small retail stores, most of which were independently owned.

The Globalization of Supplier Markets for U.S. Retailers after 1965

In 1965, the United States ran its first postwar trade deficit with Japan. The deficit was rather small, $334 million, and did not represent a major cause for concern, especially in comparison with the massive $6.3 billion trade surplus with the rest of the world. In retrospect, however, the beginning of the U.S. trade deficit with Japan could easily be interpreted as a telling, even if only symbolic, indicator of the new era in the evolution of the U.S. economy, characterized by persistent trade deficits with Asian economies and the flooding of domestic markets by foreign manufactures. In sharp contrast with the previous period, the structure and dynamics of the post-1965 U.S. economy have been profoundly impacted by its rapidly developing links with the global economy In 1965, the ratio of total U.S. international trade (imports and exports) to its GDP stood at relatively modest 10 percent, a little bit over half of what it was at its all time high in 1919 and still lower than in the years before the Great Depression. Fifteen years later, in 1980, it reached 24 percent. In the same period, the U.S. economy turned from a net exporter, the position it held since the 1870s, to a net importer, with trade deficit in 1980 approaching $20 billion.

Trade figures from 1965 on show that imports in most major categories of manufactured goods constituted a growing percentage of U.S. consumption. In 1965, imports accounted for less than ten percent of total U.S. consumption in all major categories of manufactured consumer goods, but import penetration in all categories of consumer (non-grocery) goods rose rapidly after that. Where did these imports come from? The answer is that East Asian countries (i.e., Japan, South Korea, Taiwan, Hong Kong, and China) accounted for over 50 percent in almost all categories of imports from 1975 on.

We will now disaggregate these trends decade by decade to show the dramatic shifts that occurred from 1965 to present time.

1965-1975: Creating Asian Suppliers for American Retailers

Beginning around 1965, U.S. imports of foreign goods from Asia begin abruptly to rise. If we examine the detailed data from U.S. Customs, some clear trends begin to emerge. First, Taiwan and South Korea joined Japan and Hong Kong as the principal Asian economies exporting to the U.S., with Singapore coming somewhat later and providing smaller qualities of a narrower range of U.S. imports than the other Asian NICs. In 1965, imports from Taiwan and South Korea were almost non-existent, but starting around 1968 for Taiwan and 1970 for South Korea, the exports jumped suddenly.

Second, from a U.S. perspective, during the first decade (1965-1975), these countries contributed only a very small percentage of total U.S. consumption, even in the fastest growing categories. But from the perspective of the exporting economies, these goods exported to the U.S. accounted for a very large percentage of the total growth of these economies. This was especially true for Hong Kong, Taiwan, and South Korea, all of which maintained low levels of domestic consumption during the first several decades of industrialization.

The third trend is a very rapid increase in the number of categories of items being exported. Assuming that the pattern of U.S. imports in 1972 reflects emerging trends that started a few years earlier, we see a very rapid increase in the number of seven-digit custom classifications for items exported from South Korea and Taiwan between 1972 and 1988. Already by 1972, Taiwan exported to the U.S. over 2000, and Korea over 1000, categories of goods. These totals rapidly rise and peak in 1985 and 1986 at levels approaching 6000 categories for Taiwan and 5000 for South Korea.

The fourth trend shows that throughout the period, despite the wide variety of exported goods, a very high percentage of their total value was concentrated in only a very few product categories. The highest concentration for both countries occurs in the earliest period, with nearly 50% of the value of Korea's exports to the United States and 25% of the value of Taiwan's exports contained in only 10 categories of seven-digit categories. Indeed, in 1972, nearly 90 percent of the value of Korean exports, and nearly 80 percent of the value of Taiwan's exports was in the top 100 categories.

For the period before 1975, what explains these five emergent trends? Instead of the usual inchoate supply-side stories used to explain the Asian Miracle, most often in terms of developmental states, smart and trusting entrepreneurs, and free trade regimes, we should see that these particular trends are the direct results of the emergence of global intermediaries and their abilities to create supplier markets, often including suppliers themselves, for retail products to be sold in the United States. Therefore, rather than simply asking what comparative advantages these few Asian economies had in this period, we should ask instead why did most of the major U.S. retailers begin to source products in East Asia between 1965 and 1975?

First of all, we know that most of the major retailers did begin to source during this period. They developed networks of buying offices (or contracted with major sourcing firms) in Hong Kong, Taiwan, and South Korea in the late 1960 and early 1970s, and they quickly ramped up their orders from these countries in the following years. For example, Sears established its buying office in Taiwan in 1967, Kmart and J.C. Penney in 1971, and Associated Merchandising Corporation (which bought for Dayton-Hudson, Federated Department Stores, and Target, among many others) and Mast Industries (a wholly owned subsidiary of The Limited) in 1973. At about the same time, most of these U.S. retailers opened offices in South Korea.

The reason they came to Asia in the first place was due to their rapid expansion and intense competition in the United States in the late 1960s and early 1970s. In response to Fair Trade Laws, many of the largest department stores began to develop private labels clothing that they could use to undercut their brand name competitors. The department stores first bought their private label clothing from American based manufacturing companies located in the South, but when orders rapidly expanded, these Southern manufacturers began to arrange for a portion of their manufacturing to be done in Asia. Their ability to source goods in Asia was facilitated by Japanese trading companies, especially Mitsui, that served as intermediaries between American firms that ordered the goods and the Asian firms that manufactured them.

With the initial success of Japanese trading companies in creating competent suppliers, it soon became apparent to all concerned, however, that neither the Japanese trading companies nor other types of go-betweens were needed any longer to match U.S. retailers to non-Japanese Asian manufacturers. The general department stores and, more importantly, the new generation of discount and specialty retailers, especially those specializing in fashion apparels and footwear, eliminated the middlemen and began directly to arrange their own contracting relationships in Asia. They were helped in this matchmaking effort by local firms and business groups that established their own trading companies to represent local manufacturers and to negotiate with U.S. retailers.

By 1975, Asian supplier markets had been created, partly by Japanese multinationals and partly by local efforts, and a model of how to do contract manufacturing in Asia (and elsewhere) was in the process of being developed and institutionalized. From the beginning, contract manufacturing spawned a relationship between retailers and manufacturers that did not exist in the United States: Beginning on a small scale in the early 1960's, but then accelerating rapidly after that, retailers started to directly source batches of differentiated goods specially ordered for sale in niche markets. The standard reason given for the early contract manufacturing in East Asia is the cheap labor, which of course was a factor. But even more important was that American-based retailers, engaged in hot competition in their home markets, began to develop and organize manufacturing directly without owning factories and without the corporate and labor negotiations that would be involved in subcontracting with American-based firms. This model of brand name merchandising blurred the distinction between retailing and manufacturing, so much so that many manufacturing firms, such as The Gap, The Limited, Nike, and later Dell

Computers, began to appear that did not actually manufacture anything, but rather focused almost entirely on building and assessing consumer demand, designing products for consumer niches, merchandising those products to the targeted markets, and building relationships to Asian manufacturers that would supply their goods.

During this same decade when the American retail sector was beginning its transformation, the East Asian countries were developing the capacity to respond quickly to the needs of intermediary buyers for reliable infrastructures for international trade. The East Asian NICs founded extensive trade and manufacturing associations and built world trade centers, all to facilitate the matching process between buyers and potential manufacturers. At the same time, these countries began rapidly to establish the physical and financial infrastructure that would facilitate international trade (e.g., ports, shipping, containerization, fast freight forwarding, railways, highways, as well as banking, credit markets, and stock markets, corporate insurance). These infrastructure projects and market institutions allowed global intermediaries to develop the industries and to create competitive supplier markets throughout East Asia and allowed Asian manufacturers to become increasingly more responsive to big buyer demands.

1975-1985: Diversification of Supplier Markets for U.S. Retailers

The rapid expansion and growing diversity of retailing in the United States and the equally rapid expansion of Asian manufacturing during the period from 1965 to 1985 are two aspects of the same economic phenomenon. After the first ten years, by 1975, the retailers, the various sets of intermediaries (trading companies), and the Asian manufacturers had, provisionally, worked out the basic method of contract manufacturing. Moreover, the governments and industrialists in the key areas (i.e., Japan, Hong Kong, Taiwan, South Korea, and Singapore) had built sufficient economic infrastructures to facilitate this type of long-distance manufacturing.

At exactly this moment, around 1975, the United States slipped into a severe recession. The Vietnam War had ended precipitously and the first oil shock had occurred, and then a few years later, in 1980, a second oil shock happened. The traditional retailing sector and U.S. manufacturers both declined rapidly during the period. As occurs in most economic downturns, in this recession, many American consumers saved money by shopping where they could find the lowest prices. It was in this period that competition between the new discount and specialty retailers, on the one hand, and the older, more traditional retailers, on the other hand, came to a head, and set off a wave of mergers and acquisitions, resulting in even greater consolidation within the U.S. retail sector. The number of mass discounters reduced from over ten to four major chains. Moreover, the major department stores, such as Macy's and the Bon Marche, curtailed their in-store brands and began to build mini-boutiques within their stores, featuring such brand name apparel manufacturers as Polo and Anne Klein. In addition, many of the same brand name manufacturers began to open factory outlet stores in scattered locations around the United States and elsewhere.

The rise of the new retailers stocked with many items manufactured in Asia contributed to a reorganization of U.S. manufacturing that occurred in the late 1970 and early 1980s. Many analysts of the period began to worry that American firms were no longer competitive. Many older and well-established manufacturing firms were forced into bankruptcy and many survivors had to restructure, including IBM, among many others. The Upper Midwest, formerly renowned as the industrial heartland of America, became widely known as the "Rustbelt". A important cause of this crisis in American manufacturing was that many of traditional retailers had maintained their American-based supply lines and stocked their shelves with more traditional types of products, but as these retailers lost customers, because of their competitors' low prices and the availability of new products carried by other retailers, the orders with American manufacturers declined even as the imports of foreign products surged.

The need to cut costs and to restructure led once powerful manufacturers to join the ranks of the factory-less brand name merchandisers. Beginning in late 1970s and continuing through the 1990s, such firms as Schwinn (bicycles), Eddie Bauer (specialty outdoor clothing), General Electric and Westinghouse (household appliances), and Compaq (computers) closed all or most of their consumer product factories in the United States and began to contract all or a large part of their products overseas, mostly in East Asia. In making the move to Asia, many American firms actually invested in and helped to organize the Asian production of their branded goods. Others played a more passive role, letting the Asian manufacturers perform the primary entrepreneurial functions. In both regards, these businesses simply followed in the footsteps of the earlier firms, copying the first-comers' techniques of contract manufacturing and direct sourcing of component parts and finished goods. What started in textiles had by 1985 spread to almost very category of consumer goods, including a full range of high technology products, most of which were never mass produced in the United States. In fact, the Asian supply lines for high technology products had been sufficiently developed by the early 1980s that Dell Computer Corporation and Gateway, two companies that owe their successes entirely to contract manufacturing, much of which is centered in Taiwan; started their businesses, respectively, in 1984 and 1985.

From 1975 on, the general trend has been for these Asian economies to specialize, and therefore to diverge in what they produce. The reason for this divergence results from the system of production that emerges in each economy in response to repeat orders from big retail buyers that, in turn, reinforces what was ordered there. South Korea, for example, started the industrialization process in the late 1960s with a few large and competitive business groups, and as the orders began to come in, these large groups, known locally as octopi, gobbled up most of the opportunities presented by foreign buyers. The result was that the big business groups, the *chaebol*, controlled the flow of orders and vertically integrated to prevent other *chaebol* from obtaining the orders. By contrast, in Taiwan, which began the industrialization process with many small firms competing for the early orders and no major players that could monopolize the opportunities, the Taiwanese businesspeople began from the outset to specialize in products that small firms, interlinked in small networks, could profitably produce. As the orders began to flow, the Taiwanese small and medium-sized manufacturers became experts at producing a wide variety of products in batches, and the largest private-sector enterprises, usually family owned business groups became suppliers of intermediate goods (e.g., plastics, synthetic yarn, textiles, chemicals) and business services (e.g., shipping, insurance).

The big buyers in those locations quickly became sophisticated in sourcing their products with those entrepreneurs who could best produce them. For instance, Nike ordered very large runs of low-end standardized running shoes in Korea, and their high-end and more specialized shoes from Taiwan. In the industrializing countries of East Asia, the ordering system reinforced the competitive dynamics that drove the divergence in the industrial structure of each country, quite apart from anything that government of that country did. By 1985, the basic organizational trajectories of these economies were firmly in place and dependent on their continuing linkages with U.S. retailers and merchandisers.

1985-1997: Rationalization of Global Supply Lines

Two developments occurred in the middle 1980s that would forever restructure the organization of Asian economies. The first was the Plaza Accords signed in 1985 and the second was the global implementation of "lean retailing," a development that started in the previous decade but was only gradually implemented in Asia in late 1980s and 1990s.

On September 22, 1985, at the Plaza Hotel in New York City, after years of running trade deficits with South Korea, Japan, and Taiwan, the United States completed negotiations on a currency reform measure that all parties signed. The Plaza Accord, as this currency reform became known, removed the pegged trading range of East Asian currencies with the U.S. dollar and allowed the Asian currencies to appreciate by as much as 40 percent.

The second development was a comprehensive reorganization of global supply lines that resulted from the U.S. retailers' implementation of which is known as "lean retailing." Barcodes, scanners, and more generally "electronic data interchange" (EDI) became the medium to continue the trend towards the globalization of supply lines that was already well begun in the late 1960s and 1970s. A core principle of value merchandising—for discount retailers, brand-name merchandisers, and specialty retailers—is to match as closely as possible the number and types of goods on hand to the number and types of goods that consumers will actually buy. This involves a precise calculation of consumer demand. In the 1960s and 1970s, however, value merchandisers and department stores could only anticipate consumer demand, and to hedge their risks they would buy limited quantities of a limited range of each type of differentiated good.

The development of high powered mainframe computers and database software suitable for inventory control, both of which did not become widely available until the early 1980s, quickly made barcodes and scanners the preferred instruments of assessing consumer choice at the place and time of purchase. By the late 1980s, these innovations allowed retailers' and merchandisers' to rationalize their supply chains.

The innovations first designed for grocery stores were, in the 1980s, commandeered by other types of retailers. At first, however, the adoption of UPC codes was uneven. Many of the older retail firms, such as Sears, not only had predominantly American supply-lines, but also had already made large capital investments in developing proprietary, automated inventory systems, and were reluctant to make additional and even larger investments to adopt universal product codes and standardized scanning devices. But after Kmart and Wal-Mart both adopted the technology in the early 1980s and required their vendors to do so as well. Most other retailers had to follow suit.

This push into lean retailing occurred at the very time currencies in the leading export economies in Asia were being reevaluated upwards relative to the U.S. dollar (except for Hong Kong, which remained pegged to the U.S. dollar). In the span of just a few years, the Japanese, Taiwan, and, to a lesser degree, South Korean economies went through a momentary period of jubilation, a period when everyone felt much richer and many began to make extravagant purchases at home and abroad. The period of jubilation ended quickly, however, when domestic manufacturers realized that they could not longer meet the price points that the U.S. retailers and merchandisers required.

The currency revaluation stopped the Japanese economy in its tracks, but not its main exporting firms. By the late 1980s, Japanese industries were major OEM suppliers in only just a few products (e.g., microwaves, computers). Instead, many of the largest Japanese business group had gone to considerable effort to build their own globally recognized brand names (e.g., Sony, Panasonic, Toyota) or to use their technology to develop upstream products, such as Toshiba's LCD panels and Shimano's bicycle gears, that they then could sell to all makers of the respective products. In order to remain competitive in terms of price and quality, the many major Japanese companies transferred their final assembly sites, along with some production, to other countries. The effect of these foreign direct investments on the domestic economy was widely reported in Japan as the "hollowing out" of the Japanese economy.

Unlike Japan, South Korea and Taiwan were able to escape severe recessions, and they even were able to increase their exports, but they did so in quite different ways. By 1985, the four largest South Korean chaebol (i.e., Hyundai, Samsung, Lucky Goldstar, and Daewoo) dwarfed all the other business groups in South Korea in size and sales, and virtually monopolized exports from South Korea. After the currency evaluations, these behemoths began to follow the precedent set by the largest Japanese business groups, establishing global brand names and developing higher quality, up-market products.

In the wake of the Plaza Accords, many of Taiwan's export manufacturers faced a serious dilemma. They had OEM contracts for goods that they needed to deliver to U.S. retailers, but they could not produce those goods profitably. If they failed to honor their contracts, the retailers and brand name merchandisers would easily find other manufacturers to make the products. If they stayed in Taiwan and honored their contracts, they would likely go bankrupt, and lose the contract anyway. After several years of hesitation, those small and medium sized firms making garments, bicycles, footwear, and other types of similar consumer goods moved their manufacturing operations to China. The move occurred suddenly, like a stampede, in a matter of just a couple of years.

The period between 1985 and 1997 was characterized, then, by further divergence of national development strategies, initiated in response to the reorganization of the U.S. demand for consumer goods. At the same time, however, the whole region was rapidly becoming more integrated, was beginning to show an increasingly elaborate pattern of intra-regional trade, investment, and production. By the mid-1990s, any attempt to classify national economies in East Asia as to the level of their industrial development would be of little use. While Japan may still be a clear leader in advanced consumer electronics, as well as in the automotive sector, sizeable portions of its production and assembly are organized outside of its borders. South Korea and Taiwan both managed to reshape their economies after the Plaza accords, although in very different ways.

1997 to the Present Day: Convergence in China

By the middle 1990s, many of the Japanese, South Korean, Hong Kong, and Taiwanese manufacturers had reestablished their labor-intensive export businesses in new locations. At home, new businesses had been started, often manufacturing products that had been unknown only a few years earlier and rarely manufactured in the U.S.: cell phones, digital cameras, laptop computers, DVD players. Although many Asian firms continued to hold contracts with U.S. retailers and brand name merchandisers, they also worked diligently to obtain new orders from retailers and merchandisers in Europe, Latin American, as well as all across Asia. The U.S. share of total exports declines throughout the period, although the absolute values of exports continue to rise. Also by mid-1990s, U.S. big box retailers no longer simply purchased goods in Asia; they began actively to integrate Asian manufacturers into their supply chains. Again, American manufacturers continued their long, gradual decline, driven in large part by the eagerness of American retailers to unify and simply their supply lines around the least cost producers, mostly Asian ones in all areas of consumer goods except for food and cosmetics. What seemed, momentarily, like an endless expansion, like a Pacific Century dawning, came to an abrupt halt in 1997. Starting in Thailand in the summer of 1997, the financial underpinnings of economies all across Asia crumbled. The financial and property markets in Indonesia, Malaysia, Singapore, the Philippines, Hong Kong, and South Korea were all deeply shaken, each for slightly different reasons; all of these countries also suffered sudden and serious declines in exports and domestic production.

When the financial crisis occurred in Asia, the U.S. was in the buoyant years of the dot.com boom and the run-up to the Y2K scare, which led computer owners to upgrade their computers for fear that their internal clocks would be unable to register the new millennium. These were the years that high technology merchandisers, such as Dell, Gateway, and Hewlett Packard, cemented their ties with Taiwanese manufacturers, and that the Taiwanese manufacturers began to relocate their low-end PC production to China. These were also the years that Wal-Mart and Target began establishing superstores across the U.S. and that Wal-Mart was beginning of its global expansion. U.S. demand for the full range of consumer goods was at an all-time high, and outside of those areas most affected by the crisis, global demand was also picking up, especially in China.

First the Asian financial crisis and then the 2001 bursting of the dot.com bubble in the U.S. led businesses world-wide to reconsider their Asian strategies. In 2001, U.S. demand for high technology consumer goods suddenly and precipitously declined, which also led to an economic slowdown in Taiwan. But China's economy continued to grow. Encouraged by the Chinese government and by China's membership in the World Trade Organization, businesses around the world began to look to China as both its manufacturing platform and its next big market. The largest investors in China were its closest neighbors: Hong Kong and Taiwan continued their large scale investments in the Mainland, but now they were joined by large investments from Japan, South Korea; the four countries together account for 70% of the total direct foreign investment in China. The convergence of Asian firms developing manufacturing sites in China prompted retailers to establish buying offices there as well. As one Wal-Mart buyer explained, retailers followed their Taiwanese suppliers: "The only reason [manufacturing] moved from Taiwan was China's low level of wages. 'We didn't have any trouble in China, because the Taiwanese went into China and built their factories. We were dealing with the same people.'"

Recognizing the potential of China as the single best low-cost providers of goods, and as representing a huge domestic market in its own right, Wal-Mart executives established in 2001 their direct buying office (that later turned into Wal-Mart's global sourcing headquarters) in Shenzhen, China, just across the border from Hong Kong, and in 2003 another buying office in Tianjin. In 2004, Wal-Mart exported over $18 billion of goods purchased in China, which amounts to 10% of all U.S. exports from China. Wal-Mart alone accounts for 30% of all foreign buying in China. Besides exporting from China, Wal-Mart is also in the midst of a huge expansion of retail stores in China where they will be opening dozens of stores in the next few years. Wal-Mart is not the only major retailer to combine foreign buying with a domestic presence in China. The giant French firm, Carrefour, the second largest retailer in the world, is the largest foreign retailer in China and is well ahead of Wal-Mart. Not far behind the front runner are German retail chains Metro and Ahold.

China is now emerging as the world's premier manufacturing platform for a large range of consumer goods. It is also one of the world's largest consumer markets. Some large U.S. manufacturers, such General Motors, are making large investments in joint ventures producing for China's domestic market. But the largest U.S. investments in China are likely to be made by America's largest companies, the retailers and in particular Wal-Mart, a firm that has now become one of the few truly global market-makers.

Conclusion

Along with many other firms, Wal-Mart has invested in the China's manufacturing capacity, and based on this investment, Wal-Mart has consolidated its global chain, reducing the number of principal suppliers and forming a global alliance with the top 50. These investments having been made, will Wal-Mart and other retailers and merchandisers soon or easily abandon China for some other location, such as India or Southeast Asia? Even if China's prices rise, perhaps through an upward reevaluation of China's currency, will China's manufacturing platform become less important than it is today? Of course, these questions are for the future to answer. But one thing should be clear from the above narrative: both the comparative advantage of locations in global markets and the competition advantage of nations in international trade are not decided by the impersonal workings of costless markets. Real firms, creating and maintaining real markets, competitively determine both comparative and competitive advantage in the global economy today. As the global retail sectors consolidates, as it has been doing for the past 50 years, there is every reason to conclude that a relatively small number of very large retailers will become the hub of the global economy, will become the makers of both consumer and suppliers throughout the world.

There is much yet to understand about the role of retailers in the global economy. We, therefore, conclude with three propositions that we hope will fuel future research. First, we conclude that markets do not emerge spontaneously, in order to ensure the match between global demand and global supply, but are rather created and shaped by real economic players, and the most prominent players making markets in the global economy today are retailers and trade name merchandisers.

This leads us to our second major proposition. Global markets cannot be reduced to the operation of an abstract, costless price mechanism. Instead, they consist of rich, increasingly complex patchwork of institutions that shapes and enables international trade. Market mechanisms are made and reproduced by large business firms, which typically dedicate a substantial amount of their organizational resources to such "market-making" activities, not for the universal benefit of all or to approximate the economist's model of perfect competition, but rather to maximize their own trading opportunities.

Finally, we propose that global markets do not, and should not be expected to, balance firms, regions, and nations in a state of productive equilibrium. How economies actually develop depend on many factors, not the least of which are the accumulated results of many choices that result in increasing returns in some locations and decreasing returns in other locations. Although institutionalized markets do generate a fair amount of stability and predictability, that fact alone does not necessarily ensure optimal, efficient or, universally beneficial outcomes. However, rather than viewing such outcomes as examples of market failure, as distortions from the ideal form of competitive market, we should understand these outcomes as the result of many knowledgeable actors making successive choices about how to position themselves in global markets. Increasingly such choices involve working with one or more of the global market makers or finding a niche where one can grow one’s own business apart from their influence, and increasingly those niches are becoming harder and harder to find.