What light can an appreciation of the process of internationalisation throw on changing patterns of

The past few decades has seen an exceptional growth in advanced technology that has not only resulted in the widespread adaptation of new production methods but has revolutionised telecommunications to such an extent that the world could now be considered a "global village". With most of the last remaining communist bastions modifying themselves to the capitalist way of life, the world economy has become the largest and most complex market there has ever been.

The increasing size and volatile dynamics of this capitalist market prompted the Brandt Commission to call it "a fragile and interlocking system" (Knox and Agnew, 1989); but can the growing importance of internationalisation within the new world economy be used to explain the changing hierarchical position of these "interlocked" nations? And if so where have these changes been taking place? Before answering either of these two questions however, it is first necessary to define what is meant by internationalisation.

The process of internationalisation relates to the assumption that each nations economy is becoming less self-contained and more integrated into a global network of production. In its earliest phases internationalisation began with an expansion in foreign trading. The encouragement of businesses such as the East India Company, who invested in trading activities, plantations and mining ventures to supply raw materials to industrialising centres, signified the start of, what was possibly, the beginnings of a shift in the "economic hierarchy".

As the evolution of the capitalist market continued, eventually instigating the birth of the Industrial Revolution, the number of companies taking part in this type of international activity increased and international trade grew. As time progressed companies were able to implement different business strategies as a result of the capital accumulated through this prosperous economic period. The most important of these strategies was the development of Singer Sewing Machines' first overseas production unit in 1867; signalling the arrival of the first Trans-National Corporation (TNC).

The arrival of the first TNC heralded the start of a new era of direct foreign investment; acting as a multiplying factor, other companies soon followed Singers' example and invested overseas. This export of capital was initially aimed at acquiring either raw materials, and was therefore mainly limited to the mining and agricultural sectors of foreign countries, or gaining access to a market that was otherwise closed to exports through a variety of trade barriers. Between 1894 and 1914, the result was that 50 per cent of all United Kingdom investment went abroad, constituting a value of just over £4 billion (Green and Sutcliffe, 1987).

However, this period of massive investment in foreign assets was to be short lived. The outbreak of the First World War and the ensuing Great Depression resulted in a decline in foreign investment; as speculators and businessmen became more cautious about where they invested their capital. It was only after the end of the Second World War and the boom conditions that followed, that economies began to flourish once again.

In this period the increase in the amount of capital activity occurring in foreign countries was unparalleled. Between 1948 and 1979 the volume of international trade increased by an average of 7 per cent per annum, so that by 1983 $1,700 billion of goods and services were exchanged across national borders (Green and Sutcliffe, 1987).

This post-war expansion of foreign investment took many different forms, including; direct investment in production activities, short-term financial flows through the banking system and long-term flows of lending to other governments. However, the most noticeable factor was the polarisation between countries taking part in this international transference of capital.

As the evolution of the capitalist economy continued the world was divided into three fundamental areas; the core, semi-periphery and periphery. These groups represented the different levels of development countries had achieved as a result of their participation in the industrial revolution. The core countries, namely the UK, the USA and West Germany, were the nucleus of this revolution and hence the wealthiest; the semi-periphery, dominated by the rest of the western world, had begun the process of development; whilst the peripheral regions (Africa and Asia) had been bypassed by the industrial revolution altogether and were bottom of the "economic hierarchy". As Hymer (1979) noted;

"there was a tendency for the [capitalist] system to produce poverty as well as wealth, underdevelopment as well as development".

Since the formation of the capitalist economy and the subsequent development of the process of internationalisation, the world economies have experienced a gradual growth in the size of their markets; from local to international proportions. In conjunction with this growth has been a similar expansion in the size of firms, increasing from the workshop floor, through the factory and national corporation and culminating in the TNC. Thus the TNC is inextricably linked with the process of internationalisation and hence can be used as an indicator for any changing patterns of geographical inequality.

However, before embarking on an analysis of the role the TNC has had to play in determining a new world order, it is necessary to first consider the role of the State.

During the boom period after the Second World War, capital was accumulated by the developed governments as a result of the buoyant international trading taking place in the revitalised world economy. With sufficent capital accrued to maintain their own countries economies, the reserves were given as loans to poorer nations trying to reduce the chasm between "developed" and "developing". This capital was quickly invested by the developing countries, in programmes and infrastructure aimed to improve their ranking in the "economic hierarchy".

As time progressed and more capital was loaned to these countries, their dependence on the developed economies grew to such an extent that almost all hope of becoming economically independent diminished. When the oil crises' broke in the 1970s, putting a strain on the economic fortunes of the developed countries that they had not experienced since the Second World War, the size of loans reduced and interest repayments on the capital already borrowed rapidly escalated.

In their attempt to assist the development of the poorer countries by internationalising capital in the form of loans, the "western" world inadvertently contributed to the further rooting of these countries at the foot of the "economic hierarchy". The dramatic upsurge of the interest rates on their loans caused a spectacular escalation in the debt problem that they were already experiencing. Thus, rather than alleviating any problems they previously had, the loans had confirmed the existence of the peripheral countries economic inequalities.

The internationalisation of capital also caused problems for governments of developed countries. The short-term transfer of capital between countries has been made possible with the global spread and coordination of international banks. The governments of these countries have tried to impose measures to reduce this transference of finance capital since it can affect the country's balance of payments. However, although these restrictions are practical in terms of direct foreign investment, the advent of computer technology and telecommunications has made it impossible to monitor these capital flows.

This internationalisation of finance capital has been regarded by many politicians as the key aspect of economic success since the 1950s, when the european currency market was developed. Since then further developments have included the formation of Eurodollars and steps towards European Monetary Union.

All of these developments, contributing to the internationalisation of finance capital, have begun to undermine the nation states powers to regulate its own affairs. As technology improves and capital exchange markets remain open twenty-four hours a day, finance will be able to be moved anywhere almost instantaneously. Rather than governments keeping a protective hand on their own country's economic affairs, it will be the volatile and dynamic capitalist market that determines its fortunes, and hence any future changes in the pattern of geographical inequalities.

Although the internationalisation of finance has played a part in determining the structure and order of the world "economic hierarchy", the key role is occupied by the TNC. The rise of the TNC and its growing economic influence since World War Two, has been seen by some as "the single most important force creating global shifts in manufacturing activity" (Dicken, 1988).

These global shifts in manufacturing activity are the result of worldwide recession leading to a drop in demand for many of the products and services the TNCs offered. For the first time since the Second World War the TNCs were forced to scale down their operations to bolster their falling profit margins. In an attempt to improve their declining situation new strategies were implemented, focusing on rationalisation of products and services whose popularity had declined, diversification into areas of growth and reorganisation of production activities to improve their profitability.

The reorganisation of production included increased automation and subcontracting, but more importantly also involved the movement of activities across the globe. As the search for greater productivity continued TNCs began to fragment their production processes, increasing the degree of specialisation and standardisation to enable the use of semi-skilled and unskilled labour.

The present segregation of the "economic hierarchy" into core, semi-periphery and periphery has meant that TNCs are presented with an opportunity to improve their profit margins by utilising the location specific factors (Dicken quoting Dunning, 1980) offered by less developed countries. However, although Africa (one of the peripheral areas) offers the cheapest labour source (a positive location specific factor) the TNCs do not seem to be investing production activities here (see Appendix, figure 1). This table shows clearly how the African nations have stayed rooted to the bottom of the "economic hierarchy" since 1960, with one of the few African nations to have made it to the second stage (Ghana), returning to the base in 1980.

The reason the TNCs have not located throughout Africa is three-fold; firstly, the general level of education within the Africa is too low; secondly, they possess too few skills; and thirdly, there are better financial incentives offered by other governments.

So, instead of investing in the peripheral area of Africa, TNCs opted to locate their activities in South East Asia. These nations, primarily Hong Kong, Taiwan, Singapore and South Korea (the "gang of four"), can be seen in figure 1 (see Appendix) to have risen from the lower echelons of the "economic hierarchy" in 1960, and peripheral obscurity, to the upper levels by 1985. This increase in the South East Asian national income may not be related to the growth of TNC activities within their boundaries. However, the emergence of "new manufacturing production areas" and the role of the TNC is linked in figure 2 (see Appendix); a global map showing employment in overseas manufacturing plants of United States TNCs between 1966 and 1987. This map shows how employment in US TNCs has declined since 1977 in the core area of Europe and increased in the peripheral areas of Central and South America and South-East Asia. This map would therefore seem to show a relocation of production activities related to the TNCs efforts to increase profitability.

This evidence is further supported by the dramatic impact the "gang of four" had on the world "league table" of manufacturing trade between 1978 and 1989 (see Appendix, figure 3). This table shows the continued dominance of the core countries in both manufacturing imports and exports, and the unequivocal emergence of Japan into this group via its own rigorous internal expansion policies. However, it also shows how the "gang of four" have risen from relative manufacturing insignificance to become major players in the world economic system. Their combined total value of exports increasing to $246 billion, a share of just under 8 per cent of the world total.

On a closer examination, the recent change of fortunes between the north-west of England and Taiwan goes some way to explaining the importance of TNCs and their vital roles within different nations economies.

The north-west of Englands' economy severely suffered as a result of its narrow and declining manufacturing base; the relocation of TNC production plants further weakened its economic resolve. Although not all of the companies in figure 4 (see Appendix) are TNCs, the general trend in manufacturing between 1980 and 1982 is clearly shown. Almost all of the regions manufacturing companies showed a significant reduction in their employment; with the three largest foreign TNCs each exhibiting a fall of approximately 15 percent. Even the UK based TNCs were forced to reduce their home-based employment levels; with Unilever Ltd shedding 7.4 per cent of its workforce.

However, what now interests us is, what happened to those manufacturing jobs? The evidence from some of the peripheral nations suggests that these jobs were relocated within their territories and figure 5 (see Appendix) seems to confirm this. The first part of the table shows firms from the north-west who have experienced a decline in both UK and overseas employment. Yet although this may be true, it is noticeable that, in the majority of cases, the index of decline is lowest in the domestic (UK) sector, compared with the overseas sector (ie. reduction in employment was greater in the UK). The second half of the table is a far more blatant example of companies decreasing employment in the UK but expanding it overseas. The Chairman of ICI, Mr John Harvey-Jones, summed up the situation when he was quoted as saying, "when the UK industrial base largely collapsed, what could we do? We had either to shut the whole company down or relocate production to survive" (Thrift and Taylor, 1989).

This internationalisation of TNC activities has assisted the development of some peripheral nations. One of the best examples of this is Taiwan who, as we have already seen, has successfully begun to climb up the "economic hierarchy".

The basis of the Taiwanese export boom that propelled its economy to unprecedented growth, has been the competitiveness of its location specific factors linked with the development of a strong governmental influence. These elements included; a ruthless government who prevented trade unions from striking and provided generous tax concessions for foreign companies; and the availability of a large, semi-skilled and educated labour force that was prepared to work for low wages. It was this combination of factors that resulted in South East Asia receiving the TNCs direct foreign investment at the expense of its peripheral counterparts.

The development of the Hsindu science park encouraged TNCs such as IBM, General Electric and Singer to relocate their production activities. It was this flurry of TNC activity that was to instigate the changing fortunes of Taiwan; the economy shifting its foundations from agricultural to manufacturing exports. By 1988 Taiwan was producing £5.8 billion of computer hardware (Li, 1988) and was exporting to all the leading core countries (see Appendix, figure 6).

In short, the changing profit-making strategies of the TNCs, have begun to restructure the global "economic hierarchy", forcing some peripheral nations to be recognised as "Newly Industrialised Countries". The development of advanced technologies has culminated in a time-space convergence that has made "labour" the prime factor of profitability; resulting in TNCs contributing to the development of a new international division of labour.

However, although the presence of TNCs is normally associated with economic growth, their effects are not always positive. The overall dominance of foreign controlled firms, in a relatively weak economy, is undesirable since it means there is a danger of the nation acquiring the status of "branch plant economy". This status brings with it the problems of an increased dependence on foreign enterprises that often means a loss of political decision-making initiative and a reliance on an export-based economy. This has resulted in many NICs being extremely sensitive to fluctuations in the capitalist market, and policies implemented by the developed countries (trade barriers etc), that does not bode well for their future.

With the increasing truncation of TNC activities, the branch-plants located in the host economy are also becoming more and more specialised production centres that lack any high level administration or research and development (these are still concentrated in the traditional core countries). This is resulting in a highly skewed set of employment opportunities for the host residents, with no chance of them ever developing any "high-level" skills for themselves. This factor is seen by Hymer (1979) and Dicken (1988) as one that limits the future posterity of these countries; "if the TNC was to ever leave the host country then the protective "shell" would be broken and a hollow core left in its place" (Dicken 1988).

To conclude, the general process of internationalisation has played a fundamental role in the reshuffling of the "economic hierarchy" and the changing patterns of geographical inequality. The efforts and activities of the TNC has meant that the flourishing fortunes of some of the NICs, have leap-frogged them up the world economic order and past some of the more established nations; whilst the bypassing of some peripheral regions has categorically rooted them to its base.

However, the volatile nature of this new and integrated global economy, and the TNCs thirst for ever increasing profits, means the future structure of this order is the most unpredictable it has ever been. Whether or not the economies of the NICs would survive if the TNCs pulled out, or if there was another world recession, is open to debate. So too is the future role of the remaining peripheral areas, one of the last places the TNCs have left to exploit. What is certain however, is that if companies and governments refuse to adapt to the changing nature of the world economy and the increasing importance of internationalisation within it, their position in the present "economic hierarchy" will be severely threatened.

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