GLOBALIZATION PROCESSES AND LOCAL ECONOMIES

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INTRODUCTION

The brief given to me by the Conference Organizers was to address the issue of globalization processes from the perspective of local economies. This is not an easy task because, once we probe beneath the hype of much of the globalization debate, we find that we are dealing with very complex processes not only in terms of what *globalization* itself means but also how it actually relates to local economies. First, the term *globalization* tends to be used very loosely indeed, often as a synonym for *internationalization*. But the two are qualitatively different. *Internationalization* refers simply to the increasing geographical spread of economic activities across national boundaries; as such, it is by no means a new phenomenon. *Globalization* is a more advanced and more complex process which involves functional integration between internationally dispersed economic activities (Dicken 1992a). In that sense, globalization is a much more recent phenomenon and both sets of processes continue to exist simultaneously. A second complicating factor is that the global-local relationship is not simply uni-directional but mutually interactive. We tend to think of the 'local' being submerged by all-pervasive, placeless global forces but this is not so. The 'local' continues to be extremely significant but its meaning has altered. The essence of 'localness' is not only its intrinsic characteristics but also its *relationships* with other places at different geographical scales of which the global is increasingly dominant. However, not only do all global processes originate in specific places but also the highly differentiated nature of places itself means that global processes actually take on somewhat different forms in different places. Third, focusing on the global-local relationship itself too easily leads us to forget the highly significant role played by the nation-state in mediating - even transforming - that relationship. Despite periodic claims to the contrary, the nation-state is not dead as an economic actor in the global economy. Indeed, it remains an exceptionally significant element.

Figure 1 attempts to capture something of this dynamic complexity and forms the framework within which this paper is set. The most obvious characteristics of the global economy (shown in the two boxes at the top of the diagram) are:

(1) the intensification of global competition across an increasingly wide range of sectors (both goods and services) and global shifts in the production of goods and services which are manifested in the emergence of new centers of production, notably in the Newly Industrializing Economies of East and South East Asia, some Latin American countries and, potentially, in Eastern Europe;

(2) the emergence of a 'new' global financial system which has generated unprecedented financial flows and transactions across national boundaries. Some would

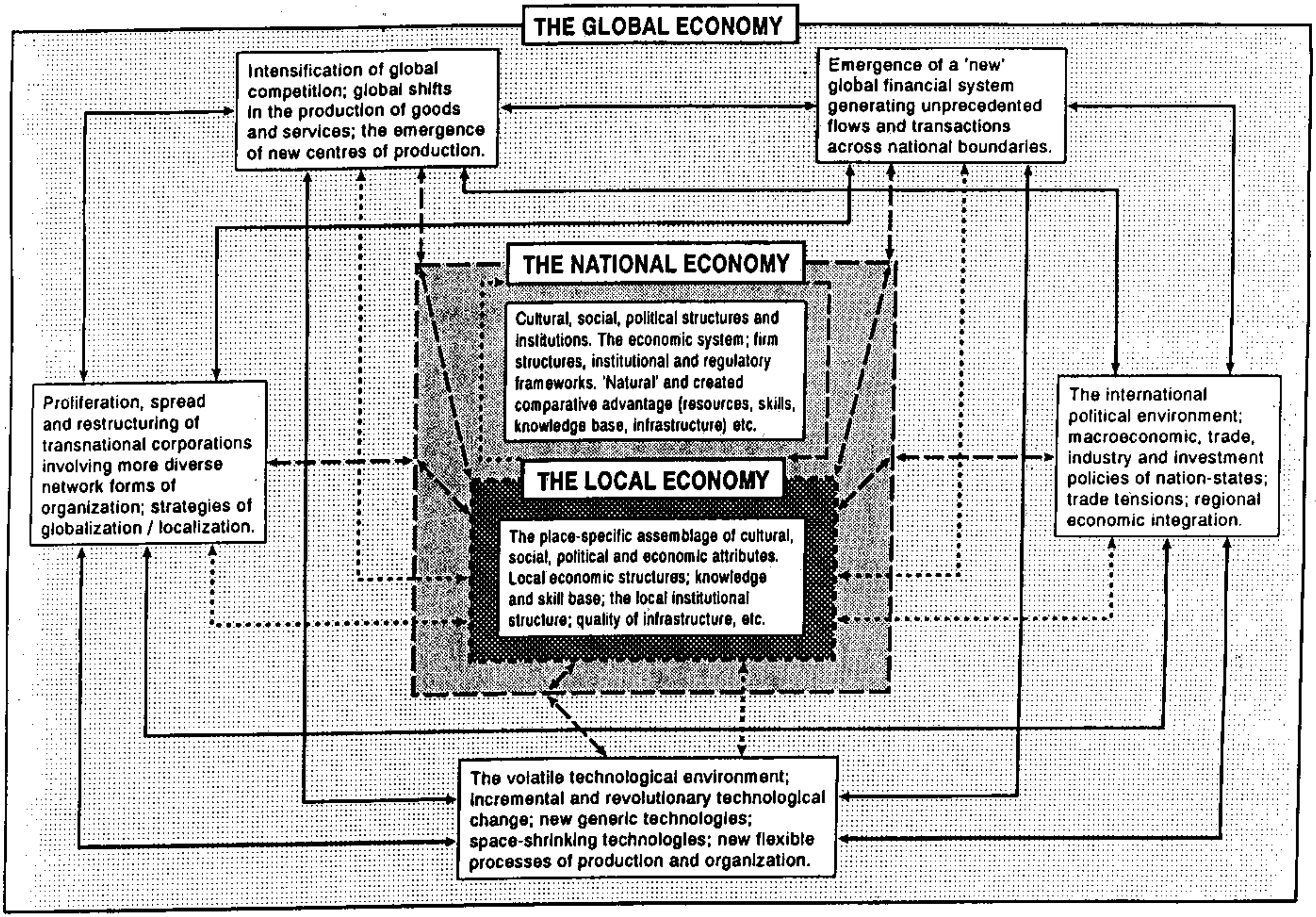

Figure 1 The local economy in a global context

argue that this system - what Peter Drucker calls the *symbol economy* - has become increasingly disarticulated from the *real economy* of the production of goods and services.

My focus is primarily on the first of these two characteristics. The increasing globalization of many economic activities is driven by the interaction of the three primary processes which are shown as the other three outer boxes in Figure 1. Many have argued that globalization is essentially produced by *new technologies*, particularly those we might call the *space-shrinking* technologies. There is no doubt that technology *is* a fundamental globalizing influence (Brooks and Guile 1987). But it is a necessary, rather than a sufficient, factor. Fundamentally, technology is an *enabling* agent - making possible new structures and new organizational and geographical arrangements of economic activities, new products and processes - but not a deterministic agent. However it is true that, in a highly competitive environment, once a particular technology is introduced by a firm then it may become virtually imperative that others also adopt it. Certainly it is the case that the technological environment is highly volatile, with both revolutionary and incremental changes in processes and products (notably more flexible technologies based on IT) and the emergence of new generic technologies generating rapid and often unpredictable change for all participants in the global economy. Technology, then, is one of the major contributory infuences on globalization but we need to beware of adopting a position of technological determinism. It is all too easy to be seduced by the notion that technology makes particular outcomes inevitable or that the path of technological change is linear and sequential. To understand the processes of globalization we need to look beyond technology to the key *actors* or *institutions* involved: transnational corporations and nation-states. Globalization is primarily the outcome of the actions and interactions of these two institutions set within the context of a volatile technological environment.

TRANSNATIONAL CORPORATIONS: THE PRIMARY GLOBALIZING FORCE

There is fairly broad agreement that the transnational corporation (TNC) is the major shaper of today's global economy. But it is vital to appreciate that not only do TNCs themselves come in many shapes and sizes but also that those very shapes and sizes are in continuous flux. Various typologies of TNCs exist in the research literature. One of the most useful is that proposed by Bartlett and Ghoshal (1989). Their typology is based upon the interaction of two major forces: (a) the nature and complexity of the industry environment in which a firm operates and (b) the firm's own specific history (its administrative heritage, including the influence of national culture, which produce what Heenan and Perlmutter (1979) term its *strategic predisposition)*. Bartlett and Ghoshal identify three established organisational models, each with distinctive structural, administrative and management characteristics, together with a fourth which, they argue, is in the process of emerging. The attributes of each type are summarized in Figure 2.

The *multinational organization model* emerged particularly during the inter-war period. Firms were stimulated by a combination of economic, political and social forces to decentralize their operations in response to national market differences. The multinational model is characterised by a decentralized federation of activities and simple financial control systems overlain on informal personal coordination. The company's worldwide operations are organized as a portfolio of national businesses (p.49). This was the model used extensively by expanding European companies. Each of the firms' national units has a very considerable degree of autonomy; each has a predominantly 'local' orientation.

The second type, termed by Bartlett and Ghoshal the *international organization model*, came to prominence in the period after World War Two. It was typified by the large United States corporations, many of which expanded overseas in the 1950s and 1960s to capitalize on their firm-specific assets of technological leadership or marketing power. This organizational model involves far more formal coordination and control by the corporate headquarters over the overseas subsidiaries. Whereas *multinational* organizations are, in effect, portfolios of quasi-independent businesses *international* organizations tend to regard their overseas operations as appendages to the controlling domestic corporation. Thus the international firm's subsidiaries are more dependent on the center for the transfer of knowledge and information and the parent company makes greater use of formal systems to control the subsidiaries.

Bartlett and Ghoshal label their third organizational category the 'classic' *global organization model*. This was both one of the earliest forms of international business (used, for example, by Ford and Rockefeller in the early years of the century) as well as a form used especially by Japanese firms in their much later internationalization drive of the 1970s and 1980s. This model is based on a centralization of assets and responsibilities. The role of the local units is to assemble and sell products and to implement plans and policies developed at headquarters. Thus, overseas subsidiaries have far less freedom to create new products or strategies or even to modify existing ones. Although each of these three ideal-type models developed during specific historical periods there is no suggestion that one was *sequentially* replaced by another. Each form has tended to persist, to a greater or lesser extent, producing a diverse population of transnational corporations in the world economy. There is some correlation between the type of organizational model used and the nationality of the parent company but, again, this cannot be regarded as a universal generalization. It is perhaps better to regard firms of particular national origins as

	Multinational	International	'Classic' global	Complex global *
Structural configuration	Decentralised federation. Many key assets, responsibilities and decisions decentralised.	Coordinated federation. Many assets, responsibilities, resources and decisions decentralised but controlled by HQ.	Centralised hub. Most strategic assets, resources, responsibilities and decisions centralised.	Distributed network. Dispersed, interdepender specialized assets and capabilities.
Organizational control	Personal control. Informal HQ-subsidiary relationship; simple financial control.	Administrative control. Formal management planning and control systems allow tighter HQ-subsidiary linkage.	Operational control. Tight central control of decisions, resources and information.	Interdependent network. Complex process of coordination and coopera in an environment of sha decision making.
Management mentality	Multinational mentality. Overseas operations seen as portfolio of independent businesses.	International mentality. Overseas operations seen as appendages to a central domestic corporation.	Global mentality. Overseas operations treated as 'delivery pipelines' to a unified global market.	Global network mentalit Large flows of componen products, resources, peop and information among interdependent units.
Role of overseas operations	Sensing and exploiting local opportunities.	Adapting and leveraging parent company competences.	Implementing parent company strategies	Differentiated contributic by national units to integ worldwide operations.

* Bartlett and Ghoshal use the term 'transn

Figure 2 A typology of forms of transnational corporations
(Source: based on material in Bartlett and Ghoshal 1989)

having a *predisposition* towards one or other form of organization (see Heenan and Perlmutter 1979).

Each of these three ideal-types of organization possesses specific strengths but each also has some severe contradictions and tensions. Thus, the global company capitalizes on the achievement of scale economies in its activities and on centralized knowledge and expertise. But this implies that local market conditions tend to be ignored and the possibility of local learning is precluded. The more locally-oriented multinational organization is able to respond to local needs but its very fragmentation imposes penalties for efficiency and for the internal flow of knowledge and learning. The international company "is better able to leverage the knowledge and capabilities of the parent company. But its resource configuration and operating systems make it less efficient than the global company, and less responsive than the multinational company" (Bartlett and Ghoshal 1989, pp.58-59).

Bartlett and Ghoshal argue that the dilemma facing firms - especially large firms - in today's turbulent competitive environment is that, to succeed on a global scale, they must possess three capabilities simultaneously. They need to be globally efficient, multinationally flexible and capable of capturing the benefits of world-wide learning all at the same time. Rather confusingly, Bartlett and Ghoshal use the term *transnational* to describe such an organization and write of the 'transnational solution'. Because of my preferred generic use of the term 'transnational' it is perhaps better to use the term *complex global firm* for the newly-emerging organizational form. Again, it is important to emphasize that an inevitable sequential development is not implied but, rather, that some firms are moving towards such a complex global structure.

A key diagnostic feature of such organizations is their *integrated network configuration* and their capacity to develop *flexible coordinating processes*. Such capabilities apply both inside the firm (the *network* of intra-firm relationships which, it is argued, is displacing hierarchical governance relationships) and outside the firm (the complex network of inter-firm relationships). Hierarchical organizational forms are essentially *vertically* structured; each unit has a specific role defined by the controlling headquarters authority. The amount of horizontal interaction is invariably less than the amount of top-down, vertical interaction. In a network organisation, in contrast, the inter-relationships are predominantly *horizontal* rather than vertical; interdependencies are predominantly *reciprocal* (Thompson 1967).

From a local policy-making viewpoint, it is absolutely vital that the very diversity of TNCs is understood; we are not dealing with a single homogeneous beast which stamps a uniform footprint over the landscape. We also need to extend our definition of the TNC beyond the narrow criterion of ownership of assets. In my view, a particularly appropriate definition of the TNC is the following:

> "a transnational is the means of *coordinating* production from one centre of strategic decision making when this coordination takes a firm across national boundaries" (Cowling and Sugden 1987, p. 60. Emphasis added)

Note that this definition says nothing about equity ownership of assets (the conventional basis for definition). Control may well be exercised without equity participation through the ability to shape business networks. In a world of increasing organizational and technological flexibility there is little doubt that new organizational forms are emerging Whatever the precise definition, however, one fact is crystal clear: the TNC has become the major force integrating economies across the world. One measure of this is the growth of foreign direct investment (FDI).

The recent temporal pattern of FDI growth displays a major upsurge during the 1980s on a scale exceeding even that of the 1960s. Julius (1990) estimates that "whereas in the 1960s FDI grew at twice the rate of GNP, in the 1980s it has grown more than four times as fast as GNP" (p.6). Recent UNCTC figures reveal a slackening in FDI growth in 1990-1991 associated with recession in most industrialized countries (UNCTC 1991) but previous experience suggests that FDI growth will resume when recession eases. Not only has FDI been growing more rapidly than GNP but also, as Figure 3 shows, it has been growing at a much faster rate than world exports, particularly since 1985. This alone suggests that FDI has become a more significant integrating force in the global economy than trade - the traditional indicator of such integration (Julius 1990). Indeed, because TNCs are themselves responsible for a very large proportion of international trade (much of this as intra-firm transactions) their global significance becomes even more marked. A further notable trend has been the massive internationalization of services much of which has been driven by FDI .

Geographically, a number of important FDI trends can be identified:

1. There has been a substantial geographical diversification of origins, not only within the industrialized countries but also from several of the Newly Industrializing Economies, notably in East Asia but including some Latin American countries.

2. Although the United States still accounts for the largest share of the world's *stock* of FDI, Japan is now the world's leading foreign direct investor on an annual *flow* basis. However, the collapse of Japan's 'bubble economy' has recently caused a substantial contraction (and geographical reorientation) of Japanese FDI.

3. There has been a major intensification of cross-investment between the industrialized economies, an increasingly high level of TNC inter-penetration of national

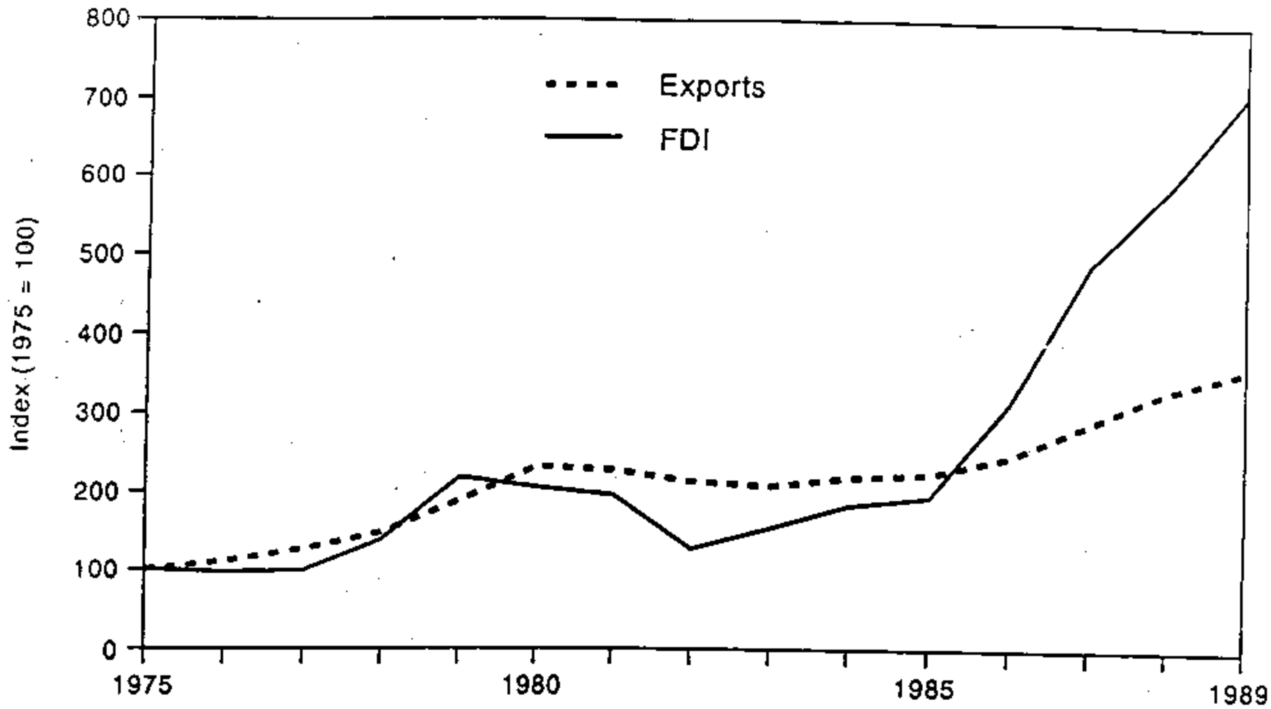

Figure 3 Growth of foreign direct investment and exports in the world economy
(Source: UNCTC 1991, Figure 1)

economies (Julius 1990). In this respect, there has been an especially dramatic shift in the position of the United States as a home and host country for FDI. In 1975, the US ratio of outward FDI to inward FDI was approximately 11:1; by the end of the 1980s, the ratio had fallen to just below 1:1. In other words, it is now at a level commensurate with that of the major European economies in which FDI flows have long been relatively symmetrical. Overall, then, the relative importance of TNCs (both foreign and domestic) in each major economy has greatly increased whilst, at the same time, the global pattern of FDI has become strongly concentrated in the three Triad regions.

4. The intensified concentration of FDI in the industrialized economies means that the share going to developing economies remains low: some 20% of the world total compared with more than 60% on the eve of World War Two. Within the group of developing countries, the distribution of FDI is extremely uneven: a mere 10 countries account for 75% of the FDI inflow, primarily the Asian NIEs and 'proto-NIEs' and some Latin American countries (OECD 1993).

5. The recent political developments in the former Soviet Union and in Eastern Europe have unexpectedly opened up investment opportunities for foreign TNCs. Although the number of recorded direct investments in those regions in 1992 was 34,422 (UNCTC 1992) their geographical distribution was extremely uneven (almost one-third of the total was in Hungary).

FDI data are one important indicator of the growing significance of TNCs in the global economy. However, these data greatly understate the real significance and extent of TNC activity because they exclude coverage of the vast array of non-equity relationships and activities which much case study evidence indicates have become increasingly significant. In particular, there has been an explosion of strategic alliances and other forms of inter-firm collaboration. Particularly useful studies of collaborative ventures are provided by Anderson (1992) [aerospace, automobiles, pharmaceuticals], Cooke (1988); Cooke, Moulaert, Swyngedouw, Weinstein, Wells (1992); Wells and Cooke (1991) [information technology, computers, telecommunications], National Research Council (1992) [semiconductors], Ohmae (1985) [aerospace, automobiles, biotechnolgy, computers, robotics, semiconductors]. As Table 1 suggests, there is a strong propensity for strategic alliances to be particularly important in those sectors which tend to be "typified by high entry costs, globalization, scale economies, rapidly changing technologies, and/or substantial operating risks" (Morris and Hergert 1987, p.18; Hagedoorn and Schakenrad 1990).

Table 1. Strategic alliances by sector, 1980-1989

Sector	Alliances Number	%	Major reasons for alliance
Information technology	1660	39.7	Market access/structure
Microelectronics	383		Market access/structure
Telecommunications	366		Market access/structure
Software	344		Technology/complementarity
Industrial automation	278		Technology/complementary
Computers	198		Market access/structure
Other	91		Market access/structure
Biotechnology	847	20.3	Technology/complementarity
New materials technology	430	10.3	Technology/complementary
Chemicals	410	9.8	Market access/structure
Aviation/defense	228	5.5	Technology/complementary
Automotive	205	4.9	Market access/structure
Heavy electric/power	141	3.4	High cost risks
Instruments/medical tech'y	95	2.3	Reduction of innovation timespan
Consumer electronics	58	1.4	Market access/structure
Food & beverages	42	1.0	Market access/structure
Other	66	1.6	High cost risks
TOTAL	4182	100.0	

(Source: based on material in Hagedoorn and Schakenrad 1990)

Most strikingly, the majority of strategic alliances are among *competitors*. Of the 839 agreements analysed by Morris and Hergert (1987) between 1975 and 1986, no less than 71% were between two firms in the same market. In addition, although alliances are certainly not confined to particular sizes or types of firms, they are undoubtedly especially common between large TNCs with extensive international operations. Geographically, most alliances in the Morris and Hergert study were between firms from EC countries (31%) or between EC and US firms (26%). A further 10% of the alliances were between EC and Japanese firms and 8% between US and Japanese firms. Anderson (1992) shows that a substantial proportion of collaborative ventures in the aerospace, automobile and pharmaceutical industries are 'cross-triad' collaborations. Quite apart from these conventional forms of international inter-firm collaboration it is also apparent (though far less well documented) that novel forms of *dynamic networks* are developing in which many of the conventional notions of business organization are being overturned and replaced by much more flexible coordinative systems.

The clear message, then, is that transnational reality is one of a spectrum of forms of TNC organization, a diversity of developmental trajectories in which firms that are consciously-planned global operations exist side-by-side with firms that have internationalized in an unplanned, often adventitious, way. TNCs today can be seen to be restructuring their activities in ways which involve: (1) reorganizing the coordination of production chain functions in a complex realignment of internalized and externalized network relationships; (2) reorganizing the geography of their production chains internationally and, in some cases, globally; (3) redefining their core activities and repositioning themselves along the production chain with a particular emphasis on downstream, service functions. These developments reflect the nature of TNCs as highly embedded interacting networks involved in competitive struggles in which a diversity of competitive strategies is used. Such strategies are, themselves, the outcome of contested power relations both inside the firm and externally with the constellation of institutions (including the state) with which TNCs interact.

Across the spectrum, complex restructuring is occurring at all geographical scales, from the global to the local, as strategic decisions have to be made regarding the organizational coordination and geographical configuration of production chain functions. Decisions to centralize or decentralize decision-making powers; to cluster or to disperse some or all of the firm's functions in particular ways are, however, *contested* decisions (Stopford and Strange 1991). They are the outcome of power struggles within firms, both within their headquarters and between headquarters and affiliates and reflect differences in goals and objectives. How they are resolved depends very much upon the location and nature of the dominant coalition. Such decisions also have to be seen within the context of the fundamental tension which faces all firms which operate at a global scale: whether to globalize fully or to respond to local differentiation.

This *global-local tension* is a central strategic consideration which pervades much of the current international business literature. It also has profound implications for local economies although not in the simplistic manner often proposed. The strategic global-local problem can be expressed very simply but finding an appropriate solution is far from simple. The basic problem facing international firms is this: should they standardize their products and structure their operations to generate global scale economies on the assumption that product markets are becoming increasingly global and homogenized or should they continue to respond to local (i.e. national) differentiation? The 'global' stance sees the world as a single market to be served most efficiently from an optimally located global network of production; the 'local' stance sees the world as a highly differentiated surface which requires market proximity in order to be sensitive to specific consumer needs and trends.

Figure 4 presents two perspectives on this strategic dilemma. Figure 4a is based upon Porter's analysis of competitive strategies in global industries. The two axes of the matrix represent the two primary dimensions of organizational coordination and geographical configuration of a firm's production chain functions. On that basis, four major types of strategy are identified with the arrows being suggestive of possible firm development trajectories. Each strategic box in Figure 4a involves different degrees of geographical concentration or dispersal of activities. Two of the alternatives (the export-based strategy and the basic global strategy) involve a high degree of geographical concentration of production; the other two (the multidomestic strategy and the complex global strategy) involve a high degree of geographical dispersion. The difference, in each case, lies in the tightness or looseness of organizational coordination.

However, the organization-coordination decision and the location-configuration decision have to be made for each element in the firm's production chain. Some elements may be geographically dispersed, others geographically concentrated. Some elements may be located in close geographical proximity to one another whereas others may be separately located. As Porter (1986, p.35) points out, "a firm may standardize (concentrate) some activities and tailor (disperse) others. It may also be able to standardize and tailor at the same time through the coordination of dispersed activities, or use local tailoring of some activities (e.g. different product positioning in each country) to allow standardization in others (e.g production)". In fact combining standardization and local tailoring is becoming increasingly possible with the emergence of flexible production technology. The tendency to dichotomize corporate competitive strategies into global versus national, cost versus differentiation, concentration versus dispersal is a gross oversimplification. TNCs "must balance pressures for integrating globally with those of responding idiosyncratically to national circumstances...[however]...there may not be a single optimal point on the fragmentation-unification continuum but a range of tenable positions" (Kobrin 1988, pp.104,107).

This notion of a strategic continuum is addressed explicitly by Pralahad and Doz (1987) in terms of an *Integration-Responsiveness Grid*. Figure 4b shows the major "pressures on a given business - pressures that make *strategic coordination* and *global integration of activities* critical, as well as the pressures that make being sensitive to the

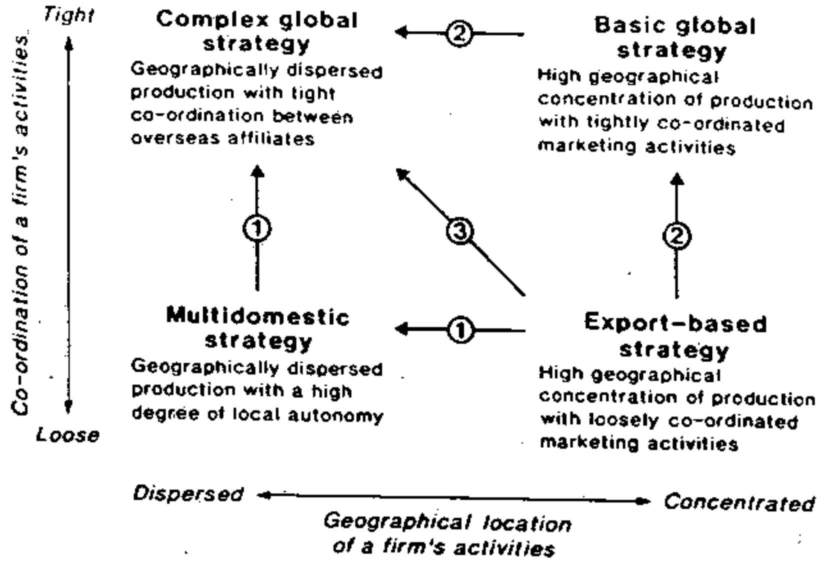

Figure 4a A typology of international competitive strategies
(Source: Dicken 1992a, based, in part, on Porter 1986, Figure 1.5)

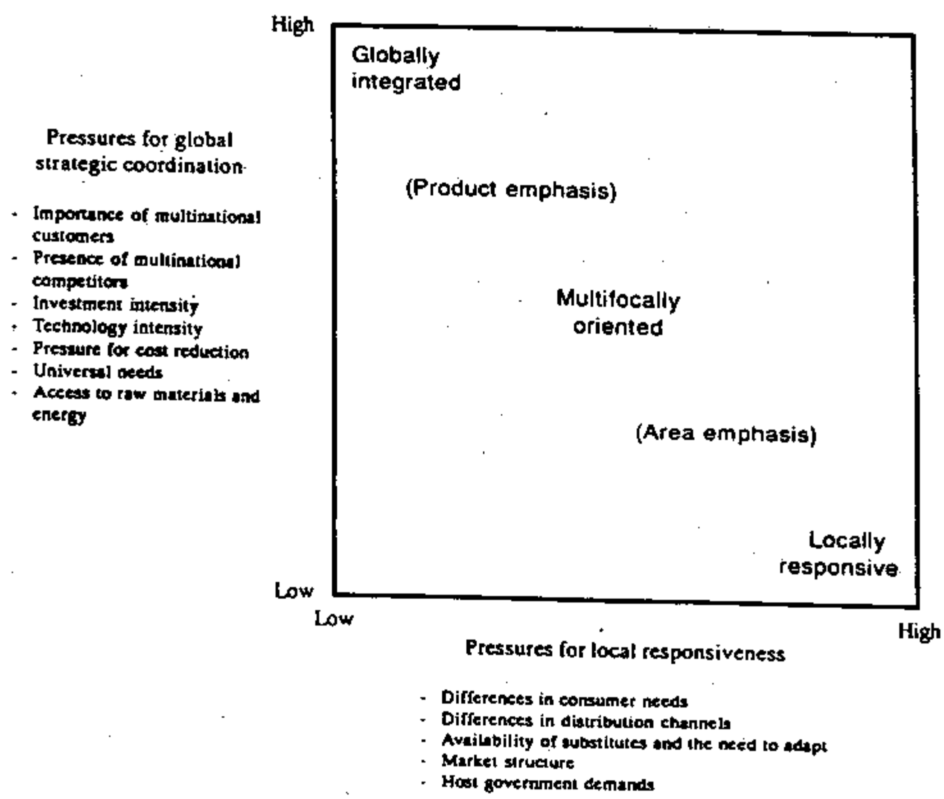

Figure 4b The global integration-local responsiveness framework
(Source: based on Pralahad and Doz 1987 Figure 2.2 and pp. 18-21)

diverse demands of various national markets and achieving *local responsiveness* critical" (p.18). They identify three major types of international business: globally integrated, multifocal and locally responsive. This typology has been tested empirically by Roth and Morrison (1990). On the basis of questionnaires returned by some 150 companies in a wide variety of industries, Roth and Morrison identified three clusters of business which correspond to the Pralahad and Doz typology. Their results are summarized in Table 2.

Table 2. Characteristics of three types of international business

Group 1: Global integration
Intense competition both domestically and internationally based on the predominance of global competitors in all key markets. Business perceptions are of customer needs as being standardized on a global basis allowing the production and marketing of highly standardized products worldwide. Large scale economies arise from the volume potentials of operating worldwide

Group 2: Local responsiveness
Business perceptions are that global standardization of product technology, global distribution channels, global economies of scale and standardized customer needs are not pressures that they face. Nevertheless, intense competition does exist for these businesses but the most distinguishing features are the high level of customer service required in all markets and the presence of variable factor costs across geographical locations.

Group 3: Multifocality:
The group of businesses faces both intense competition and global competitors as in Group1 but is distinct in that competitors do not market a globally standardized product and that there is little standardization of product technology. Lack of market and product standardization is accented with the perception that government intervention and local customer service in each market are important characteristics of their industry

(Source: based on Roth and Morrison, 1990, Table 4)

They conclude that "contrary to the literature suggesting that to compete effectively in a global industry a business unit must become a global competitor, the present study found a group of businesses that were able to maintain a 'nonglobal' competitive position through emphasis on a focused set of competitive attributes directed towards being highly responsive to each local environment in which they operate. Furthermore, wheareas standardization and efficiency are discussed repeatedly as the focal points of a global strategy, this study found that being responsive to the customer through quality customer service was considered the most important competitive attribute, regardless of the strategy pursued" (Roth and Morrison 1990, pp.559-560).

The evidence, therefore, points both to great variety and diversity within the population of TNCs and also to substantial internal reorganization within TNCs. Such reorganization involves (1) allocating greater autonomy to affiliates; (2) responding to major external changes (e.g. regional integration) by spatial rationalization of production particularly by placing greater emphasis on the market-serving functions; (3) transforming relationships with supplier firms. Thus, for example, there has been an outburst of corporate federalism in companies like IBM, Coca Cola, ABB, BP (*Financial Times* 18 December 1992). In some cases, this also involves a global shift in major divisional headquarters as in the cases of Hewlett Packard, IBM, Monsanto, Nestle, amongst others.

Spatial rationalization is a continuing process in all TNCs but, from time to time, specific events generate pressure for wholesale change across the corporate spectrum. Such, for example, has been the effect of the Single European Market (see Amin 1992; Amin, Charles and Howells 1992; Bachtler and Clement 1990; Cantwell 1987,1992; UNCTC 1990) although even here it is still too early to be sure of the precise impact amid the flurry of rhetoric and hyperbole. By extension, it would seem likely that the NAFTA will have a similar (but not necessarily the same) influence on corporate decision-making and restructuring in North America. Both of these characteristics of diversity and continuous restructuring and reorganization are vitally significant to local economies but before specifically addressing these issues it is important to focus on the other major global actor, the nation-state.

THE NATION-STATE IN THE GLOBAL ECONOMY: THE EMERGENCE OF THE 'COMPETITION STATE'

The continuing significance of the nation-state in the global economy - despite the undoubted diminution of its autonomy in many aspects of economic policy-making - lies in two major attributes. First, the state is a primary *regulator* of economic activities across and within its borders through its employment of a whole battery of measures affecting international trade and investment as well as population movement. Second, the state is a 'container' of distinctive institutions and of political, social and cultural practices which, together constitute a coherent system. In both respects, the state, therefore, is highly significant both for TNCs on the one hand and for local economies on the other.

The state in the contemporary global economy can be regarded legitimately as a *competition state* whose problem is one of facing "major adjustments to shifts in competitive advantage in the global market place"(Cerny 1991 p.183). In this specific respect, it can be argued that states take on some of the characteristics of firms as they strive to develop strategies to create competitive advantage (Guisinger 1985). Both are, in effect, locked in competitive struggles to capture global market shares. Specifically, states compete to enhance their international trading position and to capture as large a share as possible of the gains from trade. They compete to attract productive investment to build up their national production base which, in turn, enhances their competitive position. In particular, states strive to create, capture and maintain the higher value-adding elements of the production chain. *All* states perform a key role in the ways in which their economies operate although they differ substantially in the specific measures they employ and in the precise ways in which such measures are combined.

Hence, states, like firms, pursue competitive strategies although their strategic toolkits are, of course, somewhat different. However, there is another parallel between the competitive behaviour of firms and states. Just as firms, especially TNCs, have shown an increasing propensity to enter into collaborative agreements with other firms so, too, do many nation-states display the same collaborative propensity. As in the case of firms, inter-state collaboration can range from the simple bi-lateral arrangement over a single issue to the kind of complex collaborative network of a supra-national economic bloc. Although there are many examples of supra-national trading blocs in the global economy, most are relatively ineffectual and some are little more than paper agreements. Such groupings are essentially *discriminatory* and *defensive*. They represent an attempt to gain advantages of size in trade and investment by creating large multi-national markets for their domestic producers within a framework of protection. As such, they may either create or divert trade and it is this latter potential which produces apprehension - and possible counter-action - by non-members.

Undoubtedly, one of the major developments in the global economy in recent years has been the strengthening of supra-national economic integration in two of the three 'global triad' regions and at least the hint of a similar future development in the third. The final years of the 1980s, in particular, saw the speeding up of the process to complete the Single European Market (optimistically by 1 January 1993), the signing of the Canada-US Free Trade Agreement and concrete moves to establish a North American Free Trade Area (NAFTA). In Europe the extension of agreements between the 12 EC member states and other western European states will create a much enlarged European Economic Area (EEA). Possible counter-moves in the Asia-Pacific region are still unclear. The existing supra-national group in South East Asia - ASEAN - is not effective economically. The Malaysian government is anxious to create a regional economic alliance but without success. Attempts to build a broader Pacific Basin bloc have not been fulfilled so far. The key, of course, is Japan which, because of a historical legacy of distrust in the region, is proceeding very cautiously. However, if the EEA and NAFTA prove to be as inward-looking as some fear, then the pressures to create a counterweight in East and South East Asia and/or the Western Pacific would undoubtedly increase. The trend towards increased supra-national economic integration, therefore, is a further aspect of the operation of the competition state.

THE INTERACTION BETWEEN TNCs AND NATION-STATES IN THE GLOBAL ECONOMY

The shape of the contemporary global economy is moulded not only by TNCs and by nation-states acting separately but also by the *interactions* between them. The relationships between international firms and nation-states are a complex mixture of conflict and collaboration. The TNC seeks to maximise its freedom to locate its production chain components in the most advantageous locations for the firm as a whole in its pursuit of global profits or global market share. At the same time, the individual state wishes to maximise its share of value-adding activity. As a result, the relationship between firms and states is inevitably an uneasy one (Gordon 1988; Pitelis 1991; Stopford and Strange 1991).

Insofar as the nation-state acts as a 'container' of distinctive institutions and practices then it remains significant as an influence on the nature of the TNC. Indeed, my basic position - contrary to that taken by such writers as Reich (1991) or Ohmae (1990) - is that a TNC's domestic environment remains fundamentally important to how it operates, notwithstanding the global extent of some firms' operations. TNCs are not placeless; all have an identifiable home base, a base which ensures that every TNC is essentially embedded within its domestic environment. Of course, the more extensive a firm's international operations the more likely it will be to take on additional characteristics. However, very few, if any major TNCs have moved their *ultimate* decision-making operations out of their country (often their community) of origin. The argument that, in effect, there is no longer any real relationship between a firm and its home base is, like many statements in the popular business literature, a considerable exaggeration. Of course, as organizational structures have changed, as hierarchies have 'flattened', as network forms have become increasingly significant, things are no longer as simple as they once were. Nevertheless, despite many decades of operation as a TNC, Ford is still essentially a US company, ICI a British company, Siemens a German company. As Stopford and Strange point out,

> "However great the global reach of their operations, the national firm does, psychologically and sociologically, 'belong' to its home base. In the last resort, its directors will always heed the wishes and commands of the government which has issued their passports and those of their families. A recent study of the boards of directors of the top 1000 US firms, for example, shows that only 12 per cent included a non-American - rather fewer, in fact, than in 1982 when there were 17 per cent...The Japanese firm with even one token foreign director would be hard to find. Even in Europe, with the exception of bi-national firms like Unilever, you do not find the top management reflecting by their nationality the geographical distribution of its operations" (Stopford and Strange 1991, p.233).

A second aspect of firm-state interactions is the response of firms to state regulatory structures. For the TNC, the two most critical aspects of state regulatory policy are, first, *access* to markets and/or resources (including human resources) and, second, *rules of operation* for firms operating within particular national (or supranational) jurisdictions (Reich 1989). An obvious assumption would be that TNCs will invariably seek the removal of all regulatory barriers which act as constraints and impede their ability to locate wherever, and to behave however, they wish. Removal of all barriers to entry, whether to imports or to direct presence; freedom to export capital and profits from local operations; freedom to import materials, components and corporate services; freedom to operate unhindered in local labour markets - these would all seem to be the ultimate preference for TNCs. Certainly, given the existence of differential regulatory structures in the global economy, TNCs will seek to overcome, circumvent or subvert them. Regulatory mechanisms are, indeed, constraints to a TNCs' strategic and operational behaviour.

Yet it is not quite as simple as this. The very existence of regulatory structures can be perceived as an *opportunity* available to TNCs to take advantage of regulatory differences between states by shifting activities between locations according to differentials in the regulatory surface, that is, to engage in *regulatory arbitrage* (Dicken 1992b;Leyshon 1992). One aspect of this is the propensity of TNCs to stimulate competitive bidding for their mobile investments by playing off one state against another as states strive to outbid their rivals to capture or retain a particular TNC activity (Dicken 1990; Encarnation and Wells 1986; Guisinger 1985; Glickman and Woodward 1989). More generally, several writers have pointed to the fact that TNCs have a somewhat ambivalent attitude to state regulatory policies (Picciotto 1991; Rugman and Verbeke 1992; Yoffie and Milner 1989).

It is clear that the relationships between firms (especially TNCs) and states are exceedingly complex. How best can they be summarised? In Gordon's view,

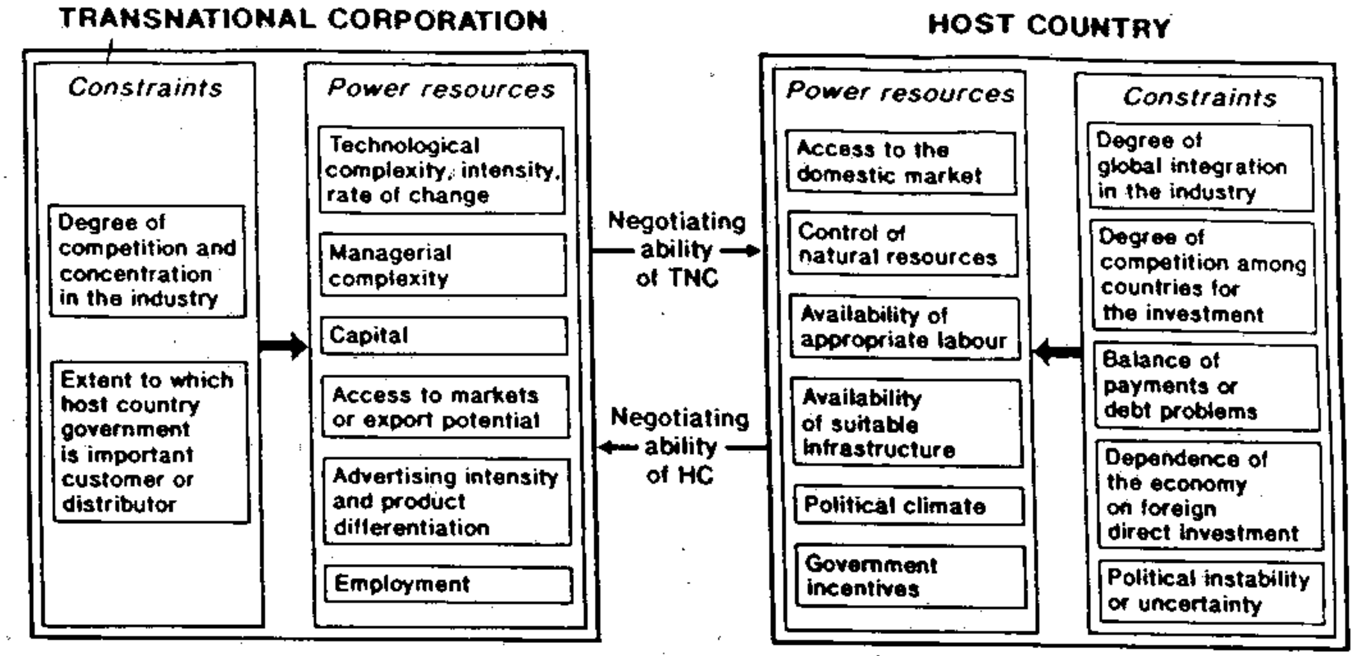

Figure 5 Components of the bargaining relationship between TNCs and host economies
(Source: Dicken 1992a, Figure 12.5)

> "it is perhaps most useful...to view the relationship between multinationals and governments as both cooperative and competing, both supportive and conflictual. They operate in a fully dialectical relationship, locked into unified but contradictory roles and positions, neither the one nor the other partner clearly or completely able to dominate" (Gordon 1988, p.61).

Whether or not a particular situation is one of rivalry or collusion, the essence of the TNC-state relationship is one of overt or covert *bargaining*. The outcome will be a function of the interaction between three elements: (1) the *relative demand* by each party for resources which the other controls; (2) the *constraints* on each which affect the translation of potential bargaining power into control over resources; (3) the *negotiating status* of the participants involved. Figure 5 provides a summary of the major components. It is important to emphasise that the nature of the bargaining process and of the outcome will probably differ according to which part of the production chain is involved. The bargaining stakes on both sides will be much higher for the scarcer, high-value adding functions than for the more ubiquitous functions. Ultimately, however, as Gabriel states so succinctly,

> "The price which the receiving country will ultimately pay is a function of (1) the number of foreign firms independently competing for the investment opportunity; (2) the recognised measure of uniqueness of the foreign contribution (as against its possible provision by local entrepreneurship, public or private); (3) the perceived degree of domestic need for the contribution. The terms the foreign investor will accept, on the other hand, depend on his (*sic*) general need for an investment outlet; (2) the attractiveness of the specific investment opportunity offered by the host country compared to similar or other opportunities in other countries; (3) the extent of prior commitment to the country concerned (e.g an established market position)" (Gabriel 1966, p.114).

The problem, of course, is that the whole process is dynamic; the bargaining relationship changes over time.

LOCAL ECONOMIES IN A GLOBALIZING WORLD

In recent years there has been much discussion about the changed prospects for local economies supposedly created by more flexible production and organizational technologies, by the increasing externalization of business functions and the growth of network forms. Following the work of such writers as Piore and Sabel (1984) and Scott (1988), for example, the notion of the local economy as a revitalized entity - indeed, as the paradigmatic form of the post-Fordist world - has gained a great deal of currency. There have, indeed, been a number of quite spectacular examples of 'new industrial districts' or 'new industrial spaces'. But, as many critics are now beginning to warn, a few swallows do not necessarily make a summer. There are big dangers in extrapolating from a small number of cases not only in an academic sense but also - and far more seriously - in a policy sense. The fact remains that local economies exist within a globalizing world. As Amin and Thrift (1992, pp 574, 584) observe,

> "if localities are on the march it is, if anything...to the tune of globalizing forces in the organization of production, a process in which local territorial integrity is far from guaranteed...[local industrial districts need to be considered as]...the outgrowths of a world economy which is still rapidly internationalizing and which is still a world of global corporate power...there does not appear to be any inexorable trend towards the localization of production This is not to deny that the trend towards vertical disintegration may have become more pronounced than in the past. Nor is it to play down the significance that 'networking' may have in encouraging the resurgence along Marshallian lines of some regions as self-contained units of economic development. Against this, however, it has to be stressed that networking is also a global phenomenon, one which has come to co-exist with, rather than replace, more orthodox forms of internationalization. Contemporary organizational change is very much a process of layering of new global corporate networks upon old international production hierarchies. In this age of intensifying global hierarchies and global corporate networks, with both...representing a further centralization of corporate command and control, it can only be a truism to propose that local economic prospects are becoming more dependent upon global corporate organizational forces".

What matters most of all, then, is the *position* that the local units (branches, subsidiaries, joint venture partners, suppliers) occupy within specific corporate networks. At the level of the broad types of TNC organization depicted in Figure 2, it is implicit that overseas subsidiaries within the different types of organization have different roles and different degrees of autonomy. 'Multinational' organisational forms give their local subsidiaries a substantial degree of local autonomy. Companies operating a simple global strategy based upon centralised production and those operating a more formally structured 'international' type of organisation presumably give least autonomy to their local subsidiaries. The shift towards more complex global organisations is resulting in a major re-evaluation by many firms of the roles to be played by their subsidiary units and the ways in which they are to be coordinated. From the perspective of a local economy, two particularly important influences would seem to be, first, parent company policy towards the externalization of key functions and, second, the extent to which a particular local environment meets the perceived requirements of the TNC. Bartlett and Ghoshal (1989) argue that TNCs, particularly the complex global network forms, are increasingly differentiating the roles and responsibilities of their national subsidiaries according to two related dimensions: the strategic importance of the local environment to the firm on the one hand and the level of local responsibility and capabilities of the subsidiary on the other. Using this framework they identify four kinds of subsidiary role: the strategic leader, the contributor, the implementer and the black hole. Each of these differs in its contribution to overall corporate strategy and may impact upon local economies in different ways. Most local subsidiaries remain essentially as 'implementers' of centrally-decided policy but, increasingly, some local subsidiaries are being given more strategic roles.

A particularly significant aspect of the relationship between TNCs and local economies is that of supplier relationships. Two related dimensions are involved here. First, there is the extent to which the local subsidiary is free to choose its suppliers (i.e. the degree of local autonomy in purchasing) and, second, the extent to which such choice is exercised locally. There is widespread agreement that major changes have been taking place in the relationships between firms and their suppliers in recent years as part of a redefinition of how production is organized within and between firms. The conventional wisdom associated with the 'flexspec' school is that, as an increasing proportion of a firm's production chain functions are externalized and as organizational forms take on a flatter network form, the opportunities for 'local' suppliers to do business with TNCs will increase. A further argument is that, as TNCs increasingly utilize just-in-time procurement systems then this will encourage them to source locally to minimize time delays. The new customer-supplier relationships involve longer-term, closer relationships based upon a high level of mutual trust. As such, they offer much greater potential for firms of all sizes to engage in integrated network activities. But a corollary of such closer, deeper relationships is that the supplier population becomes increasingly differentiated. Many major firms now operate an upper tier of 'preferred suppliers' which are closely integrated at all stages of the production process, from design to final production. For any one firm, such preferred suppliers will be relatively few in number. Not every local economy, therefore, can hope to participate in these new integrated networks. The smaller the geographical area in question the less likely is it to possess supplier firms of the necessary quality.

More than this, the trends which are occurring in the geographical distribution of TNCs' production/value-added chain elements suggest that the benefits will be distributed very unevenly. Although most firms have been restructuring their operations and several have begun to disperse some of their headquarters functions (for example, IBM, Hewlett Packard, Nestle) dispersal is highly selective geographically. The same applies to the geographical rearrangement of R & D facilities. Both of these 'high level' functions remain strongly concentrated geographically, primarily in the firms' home country or region. It is certainly true that the concept of 'global localization' involves greater local integration of functions but this is predominantly at the scale of the three major global regions: North America, Western Europe, Japan/East and South East Asia. For many firms, 'local' has a rather broad meaning. Such an interpretation is reinforced by the way in which local content regulations are operated. In the EC case, for example, local sourcing is defined as that which occurs anywhere within the Community and not at the level of the individual country, let alone that of the city or local region.

The undoubted trend towards 'localization', therefore, needs to be kept in perspective. As McGrath and Hoole (1992) demonstrate, the 'globally localized' corporation is still, esstentially, *global*. Being more sensitive to 'local' differences does not necessarily make the TNC more locally embedded in a real sense. It may well do so in some cases but, even in such cases, it is clearly a case of globaliz<u>ed</u> local embeddedness. Not every local economy, therefore, can hope to participate in the new integrated networks (Amin 1992; Amin and Malmberg 1992; Dicken, Forsgren and Malmberg, forthcoming; Schoenberger 1991). As Schoenberger has perceptively argued, only *some* places will benefit from 'localization' processes involving TNCs which arise from new forms of production organization:

> "First, the most likely scenario is that a smaller number of places will become the hosts to more integrated multinational corporate investments. For these favored places, the prognosis is relatively good as the high level of integration will yield a more diverse and qualified occupational structure. Moreover, the stability of the investment, implicating as it does multiple linked firms, is likely to be significantly higher. Yet, while many local firms will no doubt be drawn into the production complex, it is perhaps less likely that they will become core members of the collaborative partnership, remaining rather in a subordinate position to it. Secondly, as these investments become more concentrated in particular regions, the excluded regions are likely to become that much more excluded. Rather than a general embracing of more and more territory into the productive orbit of multinational networks, the degree of geographical differentiation will tend to increase" (Schoenberger 1991, pp.21-22).

The essential message of this paper, therefore, is that although local economies are fundamental building blocks in national and global economies they face serious problems in a globalizing world. The problem facing the local community, in the global scheme of things, is that it is relatively powerless except in very specific circumstances (for example, where it possesses a unique or scarce resource which gives it some leverage). The idea that the transformations which are occurring in the organization of production systems (notably the growth of network organizations and relationships) will automatically lead to a *general* enhancement of local economic opportunity and well-being is a pipedream.

Ultimately, therefore, it may be that, because of the immense asymmetry of power between TNCs and *local* institutions, there is little that such institutions can do on their own other than to provide an attractive business environment or to attempt to stimulate the kinds of local businesses which might be eventually embedded in a TNC network. Amin and Thrift reach a rather bleak conclusion regarding the prospects for self-sufficient growth for most local economies:

> "the majority of localities may need to abandon the illusion of the possibility of self-sustaining growth and accept the constraints laid down by the process of increasingly globally integrated industrial development and growth. Concretely, this may simply amount to pursuing those interregional and international linkages (trade, technology transfer, production etc.) which will be of most benefit to the locality in question. It may also involve...upgrading the position of the locality within international corporate hierarchies and networks by improvements to a locality's skill, research, supply and infrastructure base in order to attract 'better quality' branch investments" (p.585).

It has to be recognized that, although much depends on the extent to which a national political system is centralized or decentralized, virtually all effective bargaining power lies, not at the local level, but at the national level or, in cases like the EC, at a supra-national level. To that degree, therefore, the prospects of local economies will be influenced as much, if not more, by national policies as by local actions. Within the global-local nexus, the key interactions in a power sense, remain at the level of the TNC and the nation-state; in that respect, the 'seriously local' is a serious problem whose solution requires a broader policy framework.

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