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Globalisation, Global Business and Transnational Corporations

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ABSTRACT - *The process of globalization should be conceptualized as a complex interaction between transnational corporations (TNCs) and the state that occurs in the context of the dynamic technological environment. Although TNCs have an extremely important role in globalization, they have not superseded other traditional economic institutions, especially the state. The localization of economic activities remains fundamental, because every economic activity must be grounded in specific locations.*

Introduction

The phenomenon of globalization, whose impact on modern political and socio-economic world is more than fascinating, has been present on the world political and economic scene for over 30 years. The majority of people associate the word globalization with positive movements which bring progress. At the same time, the increasingly aggressive minority sees globalization as the root of all evil that has engulfed mankind. Such oppositions create the demand to define the concept of globalization more precisely, to locate the forces which generate and drive it, as well as its important social, economic and geographical consequences.

The ideas of globalization initiate globalized processes that are drawing a new geoeconomical map. There are much more driving forces on the global scene than we can imagine. Globalization is a tendencies which are geographically and organizationally unbalanced. Although TNCs have an extremely important role in globalization, they have not yet superseded other traditional economic institutions, especially the state. The process of globalization should therefore be conceptualized as a highly complex interaction between TNCs and the state that occurs in the context of the rapidly changing, dynamic technological environment.

This conceptual framework requests that the matter discussed in this paper is organized into three parts. Section 2 defines the concept of globalization, historical processes and levels of globalization. Section 3 analyses the forces of globalization and the nature of changes in the modern economy. Section 4 discusses the analytical frameworks and the localization of economic activities. Section 5 has concluding remarks.

What is Globalization?

The globalization debate

People have undoubtedly become aware that something fundamental is happening in the world economy, something that is irreversibly drawing the outline of a new economic and social order. But precisely what that 'something' in the global world might be has been the subject of many fierce and controversial debates. Advocates of globalization claim that the processes of globalization show universal potentials for economic growth and productivity, that they enable better and equitable division of labour between individual countries and economic blocs, which makes it possible for developing countries to specialize in work-intensive activities, and for developed countries to use their highly paid labour force in a more productive way. Besides, through globalization processes, capital flows are being transferred from developed to undeveloped countries, which enable bigger benefits for investors (tax concessions, profit reparation, subventions for the construction of plants and installation of equipment in certain development zones, cheaper labour force for the operations of material assembly etc.). This word is sometimes used to denote the processes of protection of intellectual property and trademarks which to buyers all around the world represent a certain quality guarantee. As long as the quality of a brand remains unchanged, consumers do not really care where a certain product with a certain design was manufactured, providing, of course, they can afford to buy it.

The opponents of globalization display a much gloomier picture of these processes. They usually claim that the increasing competition of the countries where salaries are low takes toll on working places in developed countries, reduces salaries and the level of social protection, lower the high standards of the environment protection and erode the capacities of national governments to pursue their own economic policies. Their concern is also the fact that the growing force of globalized financial markets can result in a huge economic chaos, as it has happened several times before.

The nature of globalization debates held in economic circles become transparent when we carefully analyze the most frequent questions addressed in globalization debates, as well as the questions referring to mutual integration of three dimensions of the global market: a) – market of goods and services, b) – labour market and c) – capital market.

Debates about the market of goods and services usually refer to the causes of trade growth, the impact of trade on globalization and political determinants of trade policies. Typical questions which attempt to illuminate the causes of trade growth are following: How extensive is the trade volume between partners? Which are the political, geographical, linguistic and institutional obstacles that are slowing down the process and growth of trade? To what extent do more liberal trade policies and technological revolution contribute to removing the obstacles of trade growth? To what extent is the current trade boom responsible for world's economic growth, especially after 1950? The questions that are raised in order to find answers on the impact of markets of goods and services on the processes of globalization are mostly the questions from the fields of specialization, structural adjustment and distribution. For instance: Which industries are "progressive" and which are subject to the influence of foreign competition? How do economies adapt to supply-side changes? What happens to resources when domestic industries collapse due to the incompetence to deal with foreign competition, when they are "on the street"? Is it possible to find some alternative ways to put them back to work? Do institutions of authority and their policies attempt to minimize the emerging losses in certain sectors and companies by transferring a part of revenues from "winning" sectors and companies into "losing" sectors and companies? And, finally, what happens with political determinants of trade policies? How do constituents of those policies communicate with political authorities, how do politicians interpret and respond to that information? At which point do political aversions towards globalization start to develop?

Debates referring to labour markets open up other types of questions. For example, if there exists a possibility of an open and free migration, who will migrate and why? What are economic and demographic conditions that cause the source of migration and its destinations? What is the impact of migratory flows on the economies of states-emitters and states-receptors of migrants? What happens with migratory flows when they are limited by suitable policies? How do integrations of markets of goods and services influence migrations and integrations of labour markets? Has trade become the replacement of migration or just its supplement?

As far as the analysis of capital market flows is concerned, we can apply basically the same questions as with the labour market. In addition, the integration of capital market gives rise to many new questions. For instance, what is the cause of global crises in the capital market? Does integration provide grounds for easier or "epidemic" spread of irresponsible policies from one country to another? Does the globally integrated world economy facilitate capital flows towards poor countries as well? Do debtor countries lose the ability to control their own economies? Do strategies of attracting the capital by tax benefits reduce the social security programs for poor layers of population? Do foreign investors collect the entire profit, or do they leave the host country a fair share?

Academic debates are much more complex and fierce. They are polarized around two clearly differentiated lines (Dicken, 2001, pp. 3-4). Cohen, Zysman, Drucker, Reich and Ohmae, authors of currently prevailing theories, believe that fundamental, possibly irreversible changes have occurred, resulting in a deep-seated shift in the structure of the world economy. People are already living in a world where there are no borders, where globalization has become the new economic (as well as political and cultural) order. In a new, globalized world, nation-states are no longer significant actors or meaningful economic units. Consumer tastes and cultures are homogenized and satisfied through the provision of standardized global products, created by global corporations with no allegiance to place or community. In today's technologically driven world, in which time and space have been compressed and where the 'end of geography' has arrived, the global has become the natural order of affairs.

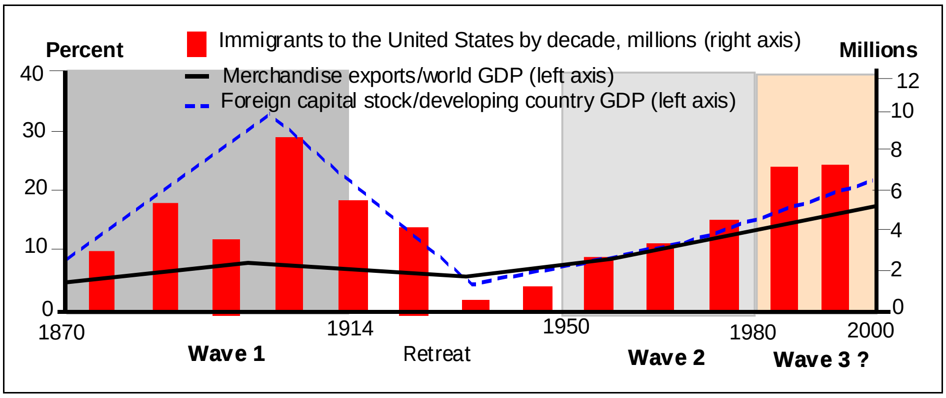
The authors from the second line (Gordon, Glyn, Sutcliffe, Hirst and Thompson) claim that globalization is nothing but a mirage and an obsession. According to this view, the world economy was much more open and more integrated in the half century prior to World War One, in which there was, under the influence of the Industrial revolution, unprecedented international integration. This means that we live in an internationalized (rather than globalized) economy in which national economies remain dominant.

All previous questions define globalization mostly from its economic aspect. However, the globalization phenomenon is much broader – it refers to much more other things as well. Globalization is also an accelerated transmission of diseases between countries; such is the epidemics of AIDS that struck Africa and Asia at the beginning of the 21st century in almost the same way as plague, which was brought to Europe in the 14th century by trade ships from Asia, devastated a great part of the "old lady", or that measles, syphilis and other European diseases wiped away native American population in the 15th and the 16th centuries. Globalization does not pay enough attention to the transmission of technology as the most important determinant of modern economic growth. In addition, globalization ignores huge environmental damages that are caused by it, as well as avoids evaluating the consequences of disappearance of many natural languages and ancient cultures. Claims that these events are completely irrelevant for the future of mankind have less and less sense. Economy is not and cannot be a universal medicine for all dilemmas and diseases of modern society.

Flows of globalization

Globalization is not a completely new phenomenon. Fifty years prior to World War I, the Industrial Revolution triggered massive flows of goods, capital and people across national borders and continents. Back then, as it is still the case today, the processes of globalization accelerated the lowering of trade barriers and development of cheaper transportation technologies (railways and steamships). Are current trends only a repetition of something that happened a hundred years ago (Economist 1997), or are there any substantial differences between the two major waves of globalization?

Figure 1- Waves of globalization



Source: World Bank (2002), page 23

Data on the number of immigrants in the USA, the share of global export of goods in the global GDP, as well as the relation between stocks of foreign capital and GDP since 1870 to 2000, as shown on Figure 1 (World Bank 2002), can prove that theories on the similarity of two major waves of globalization do have empirical background. One does not need any serious analyses to see that, in both waves of globalization, the trade and investment barriers have lowered, technologies have caused distances to shrunk, and material cultures started to look alike.

The most important directions of the development of the world economy in the last two centuries were related to the internationalization of economic activities. However, internationalization is not a completely new trend. Certain goods have had international character for centuries. Internationalization was set in motion by the industrialization in the 18th century in Europe, from where it is spreading around the world.

Early industrialization initiated a new global division of labour, which brought about some changes in global geographical models of specialization. At the beginning, the division of labour referred to the specialization of workers in certain parts of the production process, without any geographical connotations. However, with the expansion of industry, the division of labour started to gain geographical dimensions as well. Certain regions and countries started to specialize in certain types of economic activities. On the global plan, there has been a broad division of labour into industrialized countries that produced manufactured goods, and unindustrialized countries, whose major international functions were reduced to supplying the industrialized nations with raw material and agricultural products and to being a market of manufactured goods. Such geographical specialization, structured around industrial core, semi-periphery and raw material-producing periphery, had formed a model of international trade that remained active for a number of years. Besides, production processes were organized within national economies, whereas international trade developed more or less as an exchange of raw materials and finished products, manufactured and completed in national economies.

The nature of the world economy has changed dramatically in the second wave of globalization since the 1950s. National boundaries no longer act as hermetically sealed containers of production processes and trade flows. Many leakages have started to emerge on them, through which the world has become more and more integrated.

During the past few decades, trade flows have become far more complex. The old model of direct exchange between core and peripheral areas, based upon mutual division of labour, is being transformed into a new, highly complex, kaleidoscopic structure involving the fragmentation of many production processes and their relocation beyond national boundaries. New centers of industrial production in the newly industrialized economies started to emerge. With the development of new technologies, cheaper transport and communication technologies, corporate organization and new production processes, both old and new industries got involved in resorting of the global jigsaw puzzle. Two major components of the new wave of globalization – globalization of market and globalization of production – made a new division of labour in production possible, together with a new international financial system, based on the twenty-four hour global transactions concentrated in the three major financial centers of New York, London and Tokyo. Today, a huge number of new economic activities can be imagined only in the global context, since many products (or their parts) can be manufactured anywhere in the world.

The levels of globalization

Globalization processes never occur on just one, global level. Globalization goes on vertically, horizontally and simultaneously on many different levels – starting from the entire world, a certain country, a specific industry, a specific company, to the level of production lines within a single company. Essentially, globalization is a complex set of processes of the transformation of activities, very uneven in time and space. Globalization can be defined depending on the level we choose to observe.

At a worldwide level, globalization refers to a growing economic interdependence between countries, as reflected in increasing cross-border flows of goods, services, capital and know-how. Clear evidence of this is offered by the following trends:

- In the last two decades of the 20th century, cross-border trade in goods and services grew at an average annual rate of 8%, which is twice as fast as the growth rate in the world's GDP during the same period (UNCTAD 2002)
- From 1987 to 2000, foreign direct investment (FDI) grew from 57$ billion to 1271$ billion. During the same period, foreign affiliations increased their sales from 2465$ billion to 15680$ billion, the employment grew from 17,4 million to 45,6 million, total assets from 1888$ billion to 21102$ billion, and the export and import from 637$ billion to 3572$ billion (UNCTAD 2001)
- In 1970, transactions in bonds and equities as a ratio of GDP stood at under 5% in the US, Germany and Japan. By 1996, the respective figures had soared to 152%, 197% and 83% (FT 1999, p. 5).

At the level of a specific country, globalization refers to the extent of the interlinkages between a country's economy and the rest of the world. Not all countries are equally integrated into the global economy. Some key indicators to measure the level of global integration of a country's economy are: exports and imports as a ration of GDP, inward and outward flows of FDI and portfolio investment, as well as inward and outward flows of royalty payments associated with technology transfer.

At the level of a specific industry, globalization refers to the degree to which a company's competitive position within that industry in one country is interdependent with that same industry in another country. The more global an industry, the greater is the competitive advantage that a company can obtain from its technology, manufacturing process, brand names and/or capital. Globalized industries tend to be dominated in every market by several global companies, which coordinate their strategic actions. Key indicators of the globalization of an industry are the extent of cross-border trade within the industry as a ratio of total worldwide production, the extent of cross-border investment as a ratio of total capital invested in the industry, and the proportion of industry revenue and the revenue of global companies.

At the level of a specific company, globalization refers to the extent to which a company has expanded its revenue and asset base across other countries and engages in cross-border flows of capital, goods and know-how. Key indicators of the globalization of a company are international dispersion of sales revenues and asset base, intra-firm trade in intermediate and finished goods, and the intra-firm flows of technology.

Recent Globalization Processes

The forces of globalization

Which are the major forces that are modeling recent globalization processes? Do they differ from the forces that initiated the first wave of globalization? What are their consequences? These are fundamental questions that arise from the globalization debate, and which require a convincing answer.

What is obvious both on the global economic field and on different geographical areas today, results from interactions between two major groups of institutions: (TNCs) and states, operating in a changeable and dynamic technological environment. Through complex and dynamic interactions, these three forces (TNCs, states and technological changes) shape primary generators of the world's global economic transformation. TNCs, through their geographically dispersed operations, and states, through their trade, investment and industry policies, shape and reshape the global economic map of the world, whereas the dynamic technological changes in transport and communication technologies and production processes accelerate the industrialization and globalization of the production of goods and services.

However, those processes are not even in terms of geography, sectors or time, nor are those simple processes that expand from global to local levels. There are many geographical, political and socio-cultural conditions that act as active moderators of global forces and trends. Some of major trends lie at the core of globalization:

- An increasing number of countries are embracing the free-market ideology. The shift from a 'planning' to 'market' mentality, often referred to as 'transition', is well known and has been well documented in literature.
- The economic center of gravity is shifting from the developed to the developing countries. Economic liberalization promotes competition, efficiency, innovation, new capital investment and faster economic growth. Virtually any company today that wants to grow has no other choice than to pursue its operations where the economic growth takes place.
- Technological advances are constantly improving the quality and speed of communications between firms and countries. Integral container transport, invention of quick trains, motorways, airports and wide-body airplanes continuously increased the transfer of goods capacities, thus shrinking the shipping costs per unit of the product. In past 70 years, telephone costs have decreased 300 times, whereas the costs of electronic information processing kept decreasing at an average annual rate of 30% (Economist, 1998). New Internet technologies are changing the settled models of supply and demand from the roots.
- General liberalization of trade, which was performed within GATT's, Tokyo and Uruguay rounds and numerous unilateral decisions, as well as the liberation of capital flows, opened the national boundaries to trade, investment and technological transfers. Not only does this create new market possibilities for local companies, but also enables foreign investors to enter domestic markets. The intensification of com-

petition creates a race to fulfill the needs of globalizing buyers, strengthens the economy of scope, exploits the potentials of optimal locations to reduce costs and improve quality, and encompass the benefits of technological improvements where they actually happen. The result: the phenomenon of globalization has become a self-accelerating frenzy.

The nature of new changes

Although in quantitative terms the world economy seems at least as integrated economically before 1913 as it is today, the nature of that integration was qualitatively very different:

- International economic integration before 1913 – and until the second half of the 20th century – was *shallow integration* manifested through trade in goods and services between independent firms and through cross-border movements of portfolio capital.
- Since 1980s, *deep integration* starts to gain ground, organized primarily by TNCs. This type of integration soon extended from trade to the level of the production of goods and services, which increased both 'visible' and 'invisible' trade. Links between national economies are therefore significantly strengthened and expanded, and some TNCs established extensive global networks.

However, although there are undoubtedly strong globalizing forces at work, it is not true that today's world economy is fully globalized. The forces of globalization can be at work without this resulting in the end-state – the globalized economy – in which all unevenness and difference are ironed out, market forces are rampant and uncontrollable, and the nation-state passive and supine. Therefore, it is important to distinguish between processes of *internalization* and processes of *globalization*. Namely, globalization is a momentary complex of inter-related processes, highly uneven in time and space, rather than an end-state.

- *Internationalization processes* involve the simple extension of economic activities across national boundaries. These are essentially quantitative processes leading to a more extensive geographical pattern of economic activity.
- *Globalization processes* are qualitatively different from internationalization processes. They involve not merely the geographical extension of economic activity across national boundaries but, more importantly, also the functional integration of internationally dispersed activities.

In today's world economy, both processes (internationalization and globalization) coexist. In some cases, it is the continuation of long-established international dispersion of business activities, whereas in others there is an increasing dispersion and integration of business activities of TNCs across national boundaries. The pervasive internationalization and growing globalization ensure that changes originating in one part of the world are rapidly diffused to others.

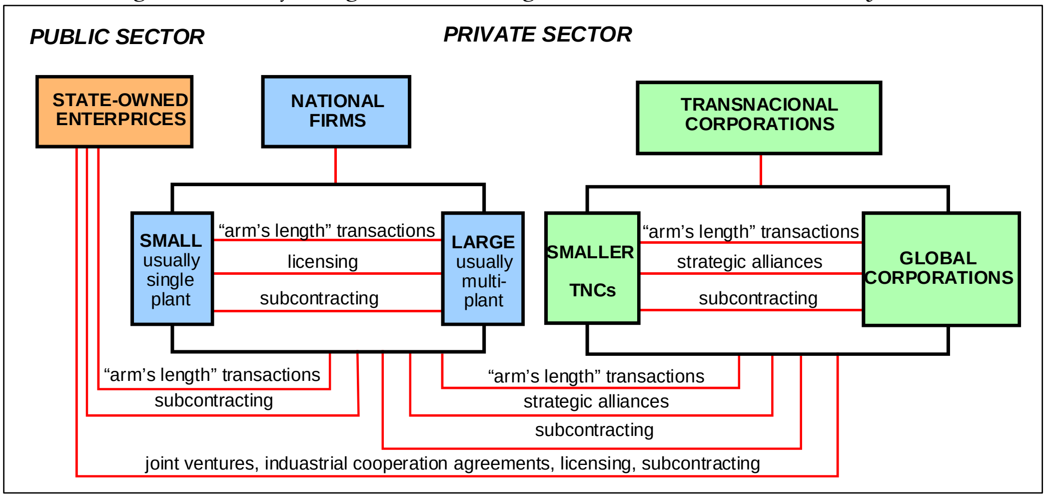
Global Vs Local Geoeconomy

Analytical framework

Although contemporary developments often make us believe that the world is becoming increasingly homogenized economically, and perhaps even culturally, we need to be extremely cautious with the use of such labels as "global village", "global marketplace" or "global factory". The "globalization" tag is too often applies very loosely for all countries, regions and localities in the same way and at the same rate. Although the forces of globalization are very powerful, we still need to pay attention to the particular character of individual countries, regions, local interests, cultural, language and other factors. Reality is far more complex and chaotic.

As Figure 2 shows, the economy of a country is made up of different types of business organizations – transnational and domestic, large and small, public and private – in different combinations and inter-relationships. Besides, in each of those segments, the firms can operate over widely varying geographical ranges and perform different roles in their economic systems. They can also be in different phases of internationalization and globalization, as well as in the co-existence of shallow and deep phases of integration. All of that happens in a way that is uneven in both time and space, as well as within individual economic sectors. Besides, only a very small number of industries is completely global; however, many industries are showing a tendency towards globalization. The question is how to disentangle this extremely dynamic complexity, and how to define the major elements of globalization?

Figure 2 -: Major organizational segments within an economic system

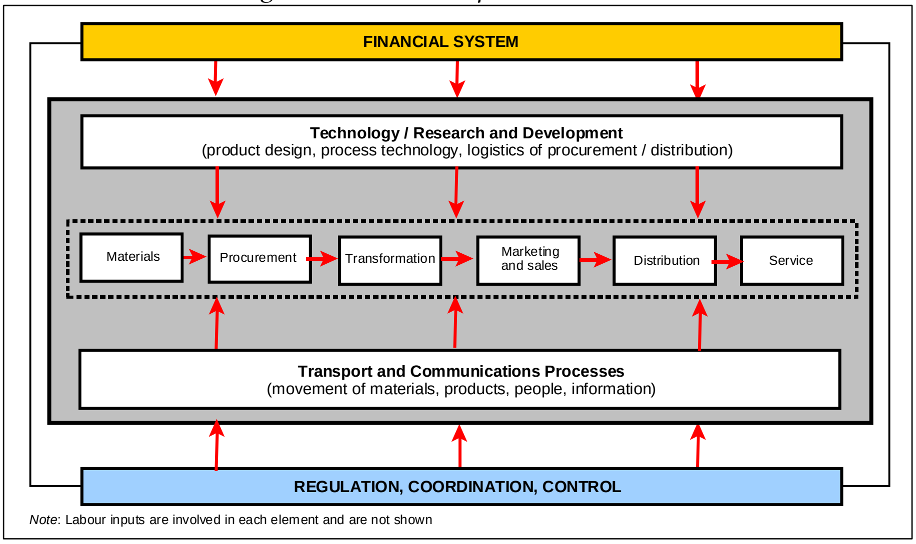


Source: Dicken (2001), page 8

The literature abounds with analytical concepts that are trying to provide an answer to those questions. In his analysis of the geographical organization of production systems, Walker (1988) uses the concept of *filière* ('the connecting filament among technologically related activities'); Storper (1992) uses the concept of the 'commodity chain' as the basis for his analysis of technology districts in a global context; Porter (1988) uses the term 'value chain' in his analysis of performance of corporations, whereas the term used by Johnson and Lawrence (1988) is 'value-added chain'.

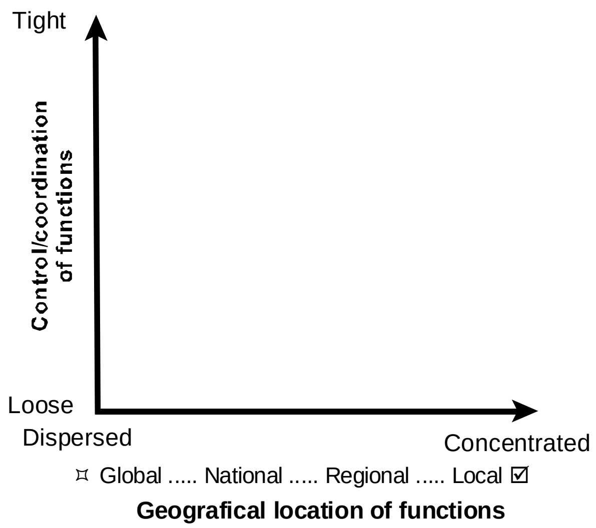
The concept of production chains illustrated on Figure 3 can be defined as a transactionally linked sequence of functions, in which each stage adds value to the entire process of production of goods and services. Basic elements of this production chain (materials, procurement, transformation, marketing and sales, distribution, service) process the inputs into outputs through mutual transactional links. Each of the individual elements in the production chain and their transactional links depend upon various kinds of technological inputs, including transport and communication processes. Each production chain is both embedded within a financial system, which provides the necessary investment and operating capital, and also has to be regulated, coordinated and controlled. In the cases of internationalization and globalization, many production chains are being globalized in such way that they either spread to other countries or perform certain operations of some elements in other countries as well. Two aspects of production chains are especially important: a) – their coordination and regulation and b) – their geographical configuration (Figure 4., Porter 1986).

Figure 3 - The basic production chain



Source: Dicken (2001), page 6

Figure 4 The two dimensions of production chains



Source: Porter (1986)

Production chains can be coordinated and regulated at two levels. First, they are coordinated (through various forms of intra and inter organizational relationships) by a business firm. TNCs play the key role in coordinating production chains. This new, broader role of TNCs creates a demand to redefine the conventional definition of the TNC based upon levels of ownership of internationally based assets, in order to capture the diversity and complexity of transnational business networks. Thus, *TNCs are firms which have the power to coordinate and control business operations in more than one country, even if they do not own them.*

This definition implies that it is not essential for a TNC to own productive assets of their own in order to be able to control how such assets are used in some countries and industries. However, TNCs generally do own such assets but they are typically involved in a global spider's web of collaborative relationships with other.

At one extreme, each individual function in specific production chain may be performed by individual independent firms, which means the links in the chain consist of a series of externalized transactions, which are organized through the market. At the other extreme, the whole chain may function within a single firm as a vertically integrated system, in which case the links in the chain consist of a series of internalized transactions, which are organized hierarchically through the firm's organizational structure. This dichotomy simplifies the richness of the regulatory mechanisms that exist in the economy. The boundary between internalization and externalization of transactions is highly flexible and is constantly shifting as firms make decisions about which functions to perform "in-house" and which to "out-source" to other firms.

However, there are no extremes in reality; what we have is a spectrum of different forms of coordination which consist of networks of interrelationships, structured by different degrees of power and influence. These networks are very dynamic and are continuously changing, which is why it is necessary to have a coordinator driving a particular production chain or network. In this regard, Gereffi (1994, p. 97) makes a distinction between two types of 'driver':

- *Producer-driven chains* refer to those industries in which TNCs or other large integrated industrial enterprises play the central role in controlling the production system (automobiles, computers, aircraft, electrical machinery etc.).
- *Buyer-driven* chains refer to those industries in which large retailers, brand-name merchandisers and trading companies play the central role in organizing decentralized production networks in a variety of exporting countries (garments, footwear, toys and houseware industries).

The second level at which production chains can be regulated is that of the state. Even though many authors argue that the state is either dead or dying as a viable force in the contemporary global economy, it still has a significant influence. Namely, all the elements in the production chain are regulated within some kind of political structure whose basic unit is the nation-state. These structures also include such supranational institutions as well as regional economic groupings such as the European Union. All markets are socially constructed; so even supposedly deregulated markets are still subject to some kind of political regulation. All states introduce and carry out a number of economic policies and measures, whose global goals are to enhance national welfare. Types and orientations of those policies or policy mix varies according to the political, social and cultural complexion of the individual state.

Subsequently, all business organizations, even the most global TNCs, have to operate within national and international regulatory systems and to conform to national business legislation. TNCs attempt to take advantage of national differences in regulatory regimes while states try to minimize such regulatory arbitrage. The result is a very complex situation in which firms and states are engaged in various kinds of power play; what Stopford and Strange (1991) call a "triangular nexus of interactions comprising firm-firm, state-state and firm-state relationships".

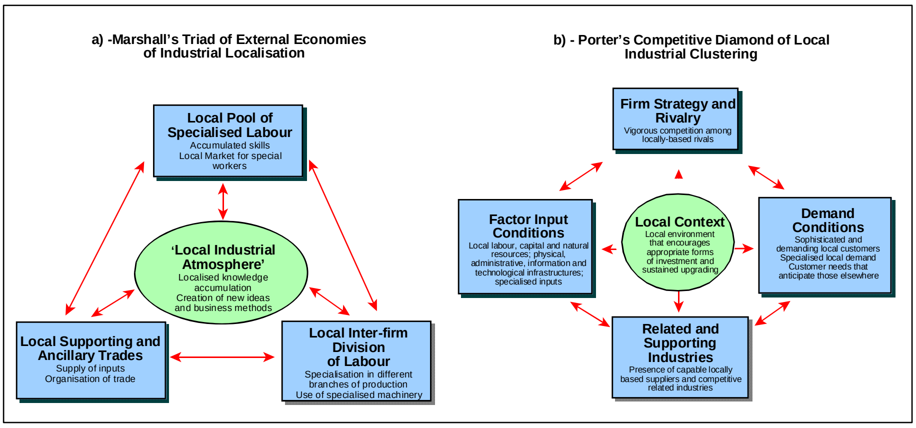
The second fundamental dimension of Figure 4 answers the question where a certain element in a production/value chain is located geographically and how the geographical structure of the different parts of the firm are physically linked. Namely, production functions may be localized anywhere along a geographical continuum from the global, dispersed scale to the local, concentrated scale. One obvious influence on the geographical configuration of production chains is technological – primarily the technologies of transport and communications which transform the conventional meaning of geographical distance. However, even though there has been a tendency for the geographical dispersion of production chains, different types of production chain can still be configured geographically in very different ways.

Localization of economic activities

Two phrases are commonly used in much of the globalization literature: "the end of geography" and "the death of distance". These phrases imply that dramatic developments in the technologies of transport and communication have made capital hyper-mobile. The forces of globalization are replacing this 'space of places' with a 'space of flows' (Dicken 2001, p. 10). However, the problem of localization remains fundamental, because every component in the production chain, every firm, every economic activity, is grounded in specific locations. Such grounding is both physical and less tangible in the form of localized social relationships.

Not only does every economic activity needs to be localized somewhere; there is also a very strong tendency to form localized geographical clusters or agglomerations. In fact, the geographical concentration of economic activities, at a local or subnational scale, is the rule rather than the exception. Their significance has been recognized by many leading economists and management theorists, notably Paul Krugman, Michael Porter and Kenichi Ohmae. However, at the end of the nineteenth century, Alfred Marshall explained in his *Principles of Economics* (1890) the advantages of the concentration of specialized industries in particular localities. His characterization of these local concentrations of specialized activity was cast in terms of a simple triad of external economies: the availability of skilled labour, the growth of supporting and ancillary trades, and the specialization of different firms in different stages and branches of production (see Figure 5), which he named "industrial districts". A century later, Porter's neo-Marshallian cluster concept argued that leading export firms from newly industrialized countries are not isolated success stories, but belong to successful groups of rivals within sets of industries related by various kinds of horizontal and vertical links. According to Porter, the significance of these industrial clusters rests in the interactions between four sets of factors that constitute a 'competitive diamond': a) – firm strategy and rivalry, b) – demand conditions, c) – factor input conditions and d) – related and supporting industries. The more developed and intense the interactions between these four sets, the greater will be the productivity of the firms in a cluster.

Figure 5 - Marchal's and Porter's concepts of localization of economic activities



Source: Martin (2001) pp 7-8

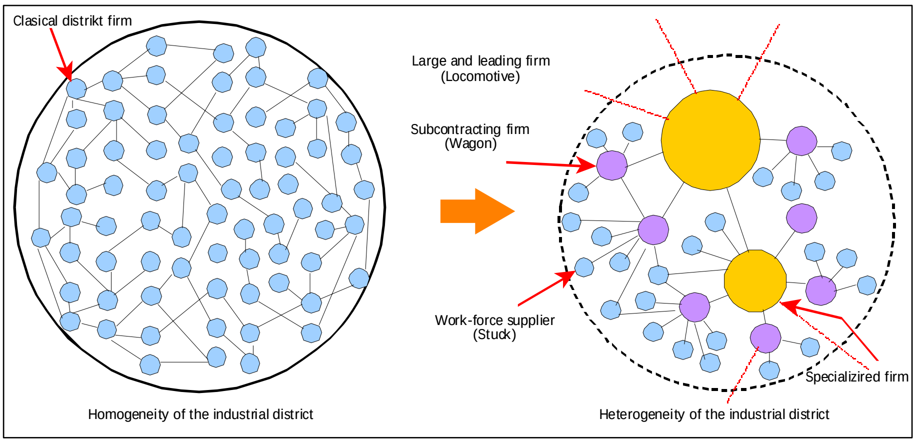
The geographic concentration of firms in the same industry in a 'competitive diamond' is common all around the world. The 'competitive diamond' is the driving force of cluster development, and at the same time the cluster is the spatial manifestation of the 'competitive diamond'. Porter's works have encouraged many authors to pursue the study of local industrial specialization, spatial economic agglomeration and regional development, in order to more precisely identify the economic, social and institutional processes involved. The literature is full of neologisms invented in order to describe the nature of local business concentration, such as: 'industrial districts', 'new industrial spaces', 'territorial production complexes', 'neo-Marshallian nodes', 'regional innovation milieux', 'network regions' and 'learning regions' (Martin, Sunley 2001) .

The initiation, growth and development of specific industrial clusters tend to be based upon two sets of agglomerative forces:

- *Traded interdependencies*. Geographical proximity between firms performing different, but linked, functions in the production chain may reduce the transaction costs involved and intensify interfirm transactions between neighboring firms.
- *Untraded interdependencies*. These less tangible benefits can be economic (the development of an appropriate pool of labour) and sociocultural (personal contacts, social and cultural interaction, enhancement of knowledge and innovation).

Once established a localized economic cluster or agglomeration will tend to grow through a process of cumulative, self-reinforcing development (Figure 6). Such cumulative nature of the processes emphasizes the significance of historical trajectory. This means that a region's (or nation's) economy becomes "locked in" to a pattern which is strongly influenced by its history. This may be either a source of continued strength or if it embodies too much organizational rigidity, a source of weakness.

Figure 6 - Strategic and organizational change in district



Source: Alberti (2001)

Concluding Remarks

Within modern globalization processes territorialization of economic activities remains a highly significant component in the organization of economic activity. The new geo-economy can be described as a geographically uneven, highly complex and dynamic web of production chains, economic spaces and places connected together through threads of flows. Different places have different actors which compete within the global economic system. Firms, states and local communities are each faced with a problem of resolving the global-local tension.

It is a mistake to focus only on the two extremes on the scale (the global and the local) at which economic activities take place. It is much more realistic to think in terms of inter-related scales of activity: the local, the national, the regional (supranational) and the global, bearing in mind that neither of the scales is an independent entity. Individual industries (production/commodity chains) can be regarded as vertically organized structures which interact with horizontal geographical political-economic scales. It is at the points of intersection of these two dimensions in 'real' geographical space where specific outcomes occur and where the problems of existing within the globalizing economy occur, the problems that need to be resolved by firms, governments, local communities or individuals.

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