

C/W - Title: What is the global division of labour? 18/9/12

- Aim: To be able to describe and explain the spatial organisation of TNCs

- Starter: Read the past exam Q below and study the examiners notes (handout).

You need a named example of a TNC where you can discuss its spatial organisation like the one below. I will teach you about Infosys who are a BPO (service TNC) but you may want to do some of your own research to get a more 'tangible' example.

Q. Outline the spatial organisation of transnational corporations (TNCs). (8 marks)

June 2012

**Notes for answers** A transnational corporation is a company which operates in at least two countries. The organisation is hierarchical, with the headquarters and research and development (R&D) often located in the country of origin, with centres of production overseas. As an organisation becomes more global, regional R&D and even regional headquarters will develop. Candidates are likely to refer to examples, which do not have to be manufacturing

e.g. Tesco (UK based): The company operates stores in 12 countries outside of the UK and in 2009 this totalled over 2000 stores. In the UK Tesco operates stores of different sizes and product ranges (Tesco Extra, Tesco Metro, Tesco Express, One Stop, Tesco Homeplus) which in February 2008 totalled over 2100 outlets. The company increasingly saw other countries not just as places to source goods from, but as markets in which to operate. After opening stores in Hungary and Poland, entry into the Asian markets began in 1998 with a joint venture in South Korea. In 2004, the company entered the Chinese market where rising wealth meant an increasing number of affluent customers. Tesco now employs around over 450 000 people worldwide and operates in the following countries, UK, China (70 stores in 2009), Czech Republic (113), Hungary (149), Ireland (116), Japan (135), Malaysia (29), Poland (319), Slovakia (70), South Korea (242), Thailand (571), Turkey (96) and USA (115). Recently, the company has begun operations in India, where it is not allowed to open its own brand retail stores but can sign up to joint ventures and operate wholesale cash-and-carry businesses.

#### Mark scheme

**Level 1 (1-4 marks) Mid point 3** Simple generalised statements of spatial organisation with no depth or detail, and not attributed to any named TNC.

**Level 2 (5-8 marks) Mid point 6** More specific and/or sophisticated statements of spatial organisation with full use of named examples.

## Development and globalisation

Development – economic, demographic, social, political and cultural changes associated with development; the development continuum.

Globalisation – factors and dimensions: flows of capital, labour, products and services; global marketing; patterns of production, distribution and consumption.

### Patterns and processes

Newly industrialised countries (NICs): their initial growth, with particular reference to the 'Asian Tiger' economies.

Further growth of NICs, with particular reference to China.

Globalisation of services, with particular reference to India.

Growth in the 21<sup>st</sup> century – the impact of new markets and new technologies (for example in Brazil, Russia and oil-producing countries).

### Countries at very low levels of economic development

Characteristics and issues – quality of life, debt, social problems.

## Global social and economic groupings

The concept of the North/South divide, and its relationship to the development continuum.

Reasons for the social and economic groupings of nations, with particular reference to the European Union.

The consequences of the groupings of nations.

## Aspects of globalisation

Transnational corporations (TNCs): characteristics and spatial organisation.

Reasons for the growth and the spatial organisation of transnational corporations (TNCs).

Case study of **one** TNC should be undertaken.

Social, economic and environmental impacts of TNC: on their host countries, and their countries of origin.

## Development issues within the world (each to be studied with reference to contrasting areas of the world)

'Trade versus aid'.

'Economic sustainability versus environmental sustainability'.

'Sustainable tourism, myth or reality'.

Remember that many TNCs are now what are known as

Globally Integrated Enterprises

This is a company that fashions its strategy, its management, and its operations in pursuit of a new goal: **the integration of production and value delivery worldwide**. State borders define less and less the boundaries of corporate thinking or practice.

This shift involves two things: changes in **where** companies produce things and changes in **who** produces them.

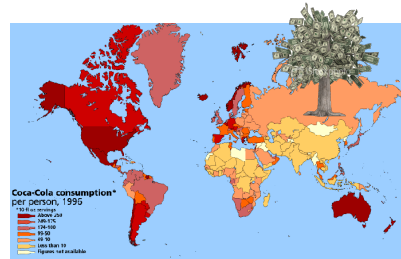
↙  
= Not produced near to market anymore but wherever it can be done cheapest even if that is split up in to several locations

↘  
= not necessarily the TNC anymore. Certain parts of the production process are outsourced.

Everywhere, economic activity is turning outward by embracing shared business and technology standards that let businesses plug into truly global systems of production.

These shared standards give companies options in terms of whom they choose to produce things. **The world has been flattened!** Companies can hand over more and more of the work they had previously performed in-house (from back-office support work, such as invoicing and employee-benefits administration, to R & D, sales, and customer support) to outside specialists. **Outsourcing!**

Last lesson we explored the many reasons why companies become TNCs:





**How do TNCs organise themselves?**

## Division of Labour

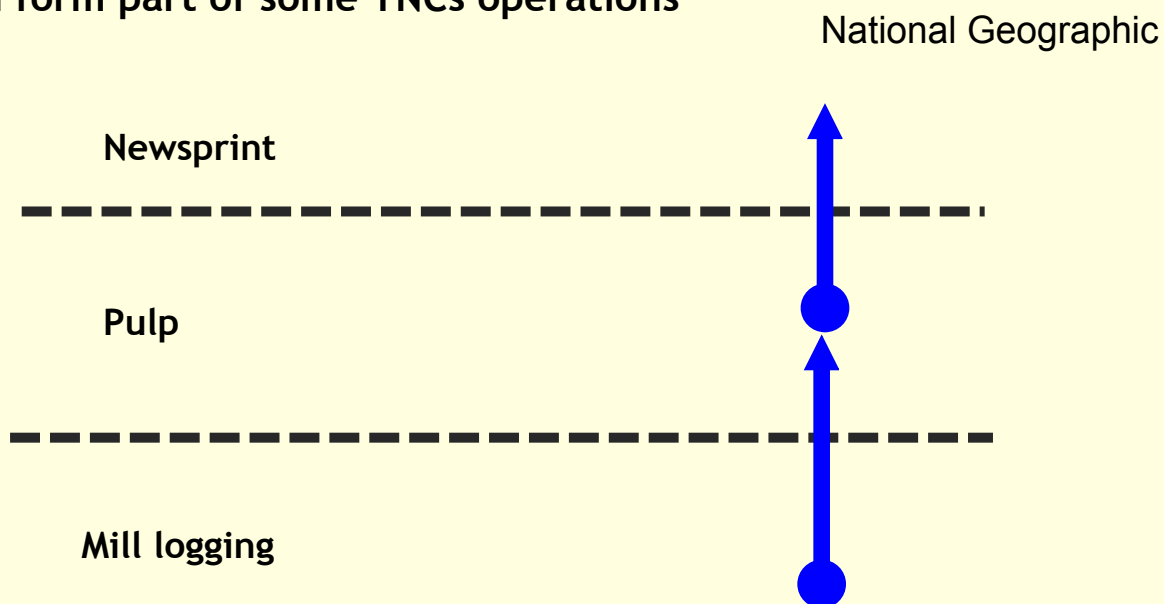


This could be making computers, cars, anything

**We can look at an end product having gone through several different stages or **linkages** before it comes to us the consumer.**

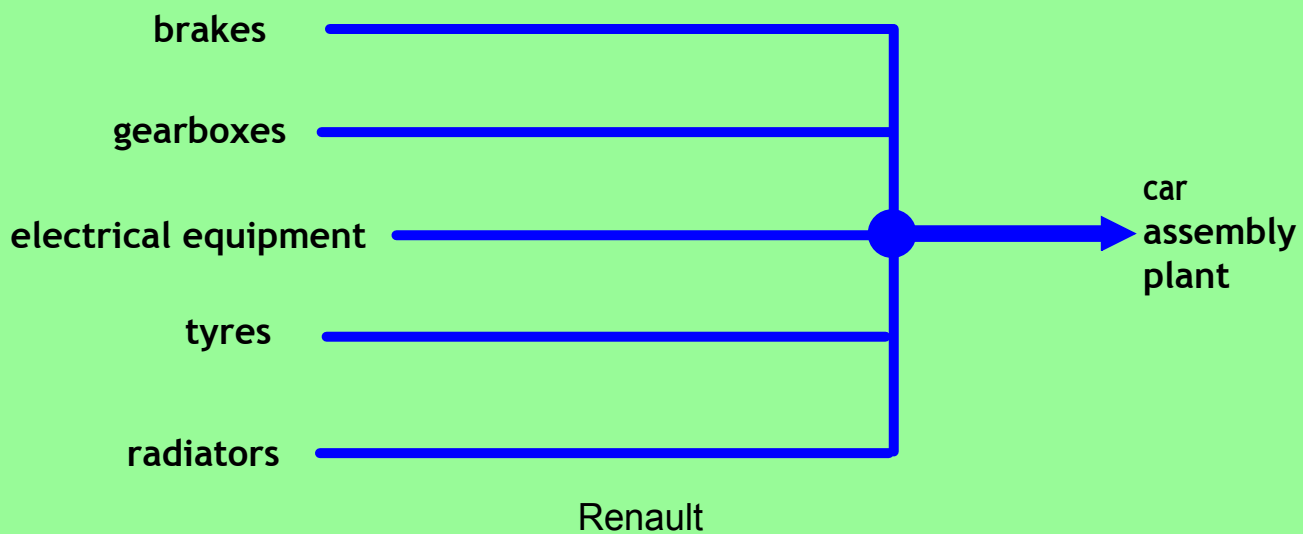
Vertical (or simple chain) linkages:

- The raw material goes through several successive processes
- This can be across international Boundaries
- Can form part of some TNCs operations



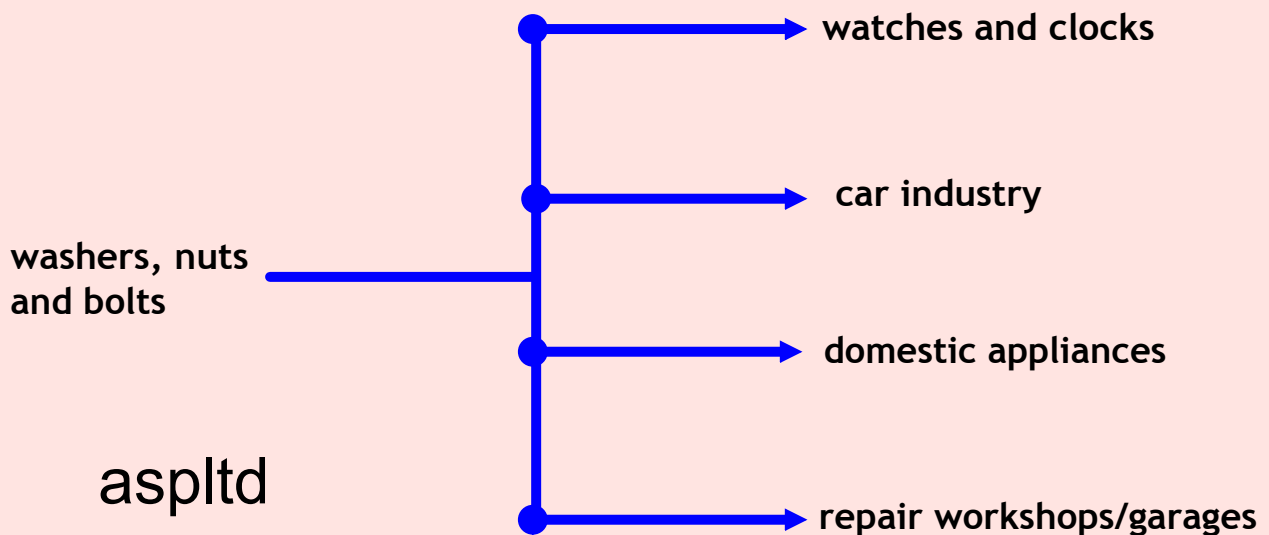
## Horizontal (multi-origin) linkages

- An industry relies on several other industries to provide its component parts (computers cars, trainers, jeans)
- Form of division of labour based on specialisation, outsourcing comparative advantage (see handout)



## Diagonal (multi-destination) Linkages

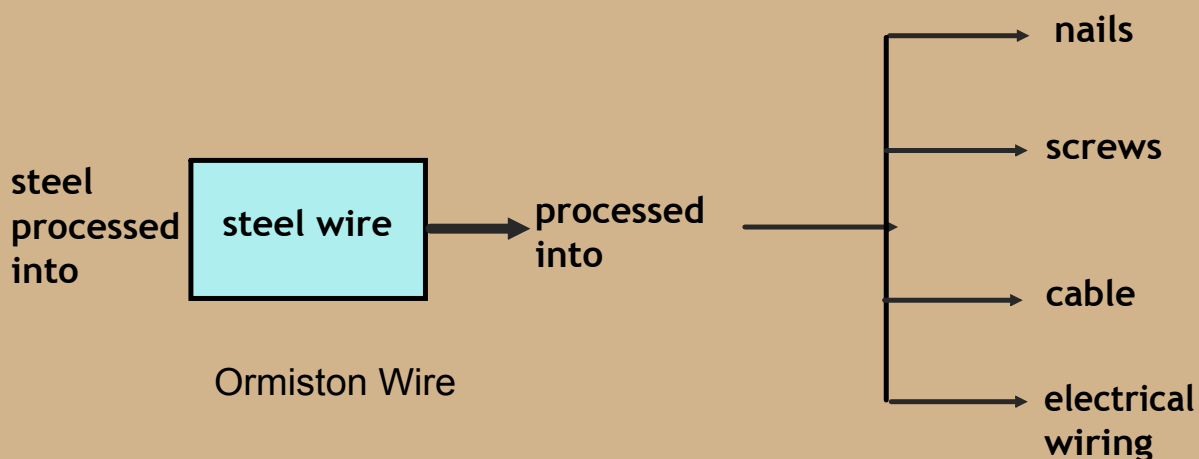
- An industry makes a component which can be used subsequently in several industries
- The specialised industries supplying TNCs!





## Technological Linkages

- A product from one industry is used subsequently as a raw material by other industries
- The specialised industries supplying TNCs!



**End result of these linkages?**

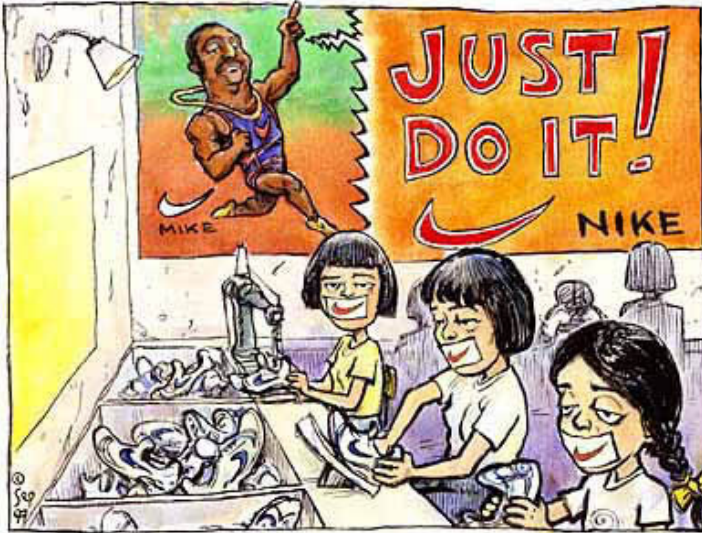
When the Division of Labour is broken  
down into tiny tasks...across  
international boundaries it is known as an  
'International Division of Labour'



It is a spatial division of labor which occurs when the process of production is no longer confined to national economies.







Transnational Corporation

A firm which has the power to co-ordinate and control its operations in more than one country, based on the right cost, skills, environment and market.

End result???

**Global Division of Labour**

Nike produce there products in nearly 40 countries including Indonesia, Vietnam, China

The Nike World Campus comprises 178 acres of tree-lined area land in Beaverton, Oregon, USA.



Headquarters and much design work in the USA



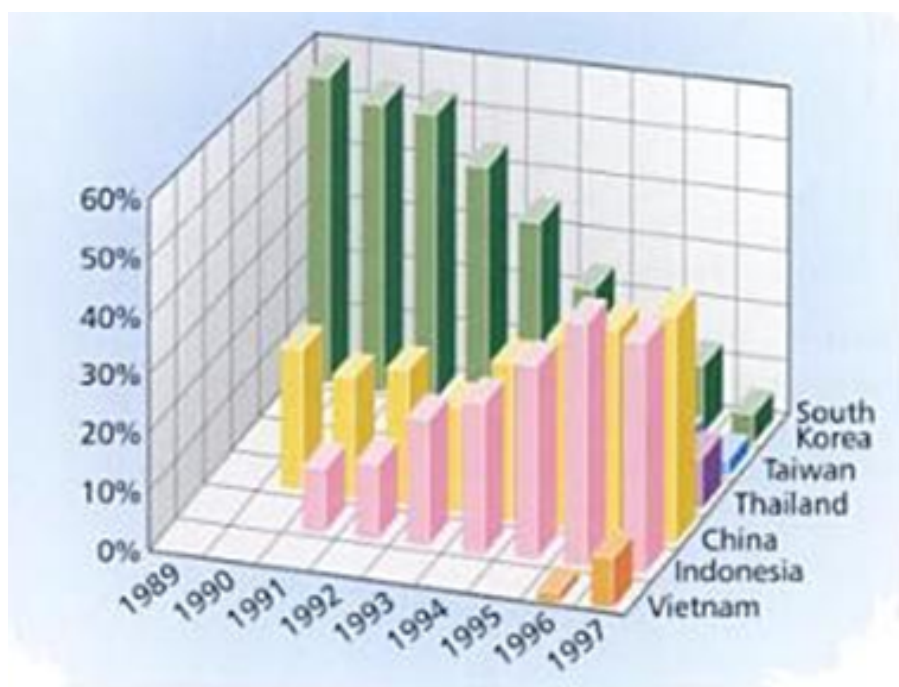




**Division of labour** is sometimes known as **economic specialisation**. It is the specialisation of cooperative labour in specific, circumscribed tasks and roles, intended to increase the productivity of labour.

Companies or even countries will specialise in tasks they can do cheaper or more efficiently than anyone else. If they can produce something cheaper than anyone else they are said to have a '**comparative advantage**' in it.

All this follows the search for profits



**10.33** *Contract suppliers for Nike footwear, 1989-97*

Why did Nike shift production from S.Korea to China and Indonesia in the 90's?

Comparative advantage refers to the ability of a company/country to produce a particular good or service at a lower cost than anyone else. It is the ability to produce a product with the highest efficiency given all the other products that could be produced.

Lets say a company could produce trainers, or umberllas or tape measures but the thing it can do better than anyone else is to make screws so that's what it decides to specialise in.

If it made all those things it would be less efficient.

Meanwhile there are other companies that could do all those things but can do umbrellas slightly cheaper than anyone else. Therefore it specialises in ...yes you've guessed it...umbrellas! and so on

<http://www.netmba.com/econ/micro/comparative-advantage/>



## Task

Imagine two individuals, A and B, living on a remote island. Two goods are needed and produced: coconuts and fish. Person A is highly skilled at producing both goods and so has an absolute advantage. Person A can produce more of each than B. **But they can only produce one good at a time e.g. 10 fish in a day or 10 coconuts or 5 of each.** Person B is more skilled at producing Fish than coconuts but still isn't as good as Person A.

1. What would each individual's output be if they worked by themselves?

- person A could produce 5 coconuts and 5 fish
- person B could produce 2 coconuts and 4 fish.

2. What would the island's total output be?

- Total output of the island would be 7 coconuts and 9 fish = 16 products

3. How could their output as an island be maximised?

- A concentrates on coconuts = 10
- B concentrates on fish = 8
- Total output = 18 products

2 Minutes in your groups...

	Coconuts ↓ V	Fish ↓ V
A -->	10	10
B -->	4	8

If the individuals did not trade, then each would produce both coconuts and fish. For example, if each spent half of his or her time harvesting coconuts and the other half catching fish, the output from *A* would be 5 coconuts and 5 fish, and the output from *B* would be 2 coconuts and 4 fish. The total combined output then would be 7 coconuts and 9 fish.

Since both *A* and *B* must make trade-offs in their production decisions, they each have an opportunity cost for each commodity they produce:

#### Opportunity cost of coconuts

- *A*: 1 fish per coconut. (10 fish per 10 coconuts.)
- *B*: 2 fish per coconut. (8 fish per 4 coconuts.)

#### Opportunity cost of fish

- *A*: 1 coconut per fish. (10 coconuts per 10 fish.)
- *B*: 0.5 coconut fish. (4 coconuts per 8 fish.)

Since the opportunity cost of coconuts is lower for *A* than for *B*, one can say that *A* has a comparative advantage in producing coconuts, so *A* should produce coconuts to maximize the island's output.

Since the opportunity cost of fish is lower for *B* than for *A*, one can say that *B* has a comparative advantage in producing fish, so *B* should produce fish to maximize the island's output.

If *A* produces coconuts and *B* produces fish, then the total combined output would be 10 coconuts and 8 fish. (versus 7 coconuts and 9 fish without specialization.) From this example, it might not be immediately obvious that the individuals are better off - while they have gained 3 coconuts they at the same time have lost one fish. However, *A* easily can choose to produce 9 coconuts and one fish, so that the combined output becomes 9 coconuts and 9 fish. Compared to the case of no specialization, there is a net gain of 2 coconuts with no loss of fish. By trading with one another, the two individuals can distribute the goods according to their preferences, and both are better off as a result of their specialization and trading.

The effect of specialization and trade is an expansion of the production possibilities for the individuals. Even though *A* has an absolute advantage over *B* for both commodities, they both benefit by specializing and trading.

**Sometimes TNCs operate abroad to avoid tariffs and quotas**





## Honda moves Japan work to Swindon

<http://news.bbc.co.uk/1/hi/england/wiltshire/8293841.stm>



Dave Harvey BBC West Business Correspondent

Richard and Glenys Donald have just done a little spending for Swindon. The lorry driver and his wife have bought a new car, a Honda Jazz.

Until recently, the Jazz was made in Japan and shipped to Europe, but now the Japanese car giant is moving production to its Swindon plant.

Mr Donald says the "local factor" was not important.

"I can't say we bought a Honda because they're made here - we just chose the best car."

The Wiltshire factory will churn out 20,000 Jazz models in the first six months.

For those who see Honda as an economic barometer for Swindon, this is good news. It is not every day that a multinational moves production from Japan to the UK.

When Honda closed its Swindon factory for four months in February, the ripples spread far and wide.

DAVE HARVEY'S BLOG Even more interesting is what the Jazz tells us about the rest of Swindon, possibly the world, as we cope with this global recession Dave Harvey is the BBC's Business Correspondent in the West Read Dave's blog

<[http://www.bbc.co.uk/blogs/daveharvey/2009/10/can\\_mr\\_and\\_mrs\\_average\\_save\\_sw.html](http://www.bbc.co.uk/blogs/daveharvey/2009/10/can_mr_and_mrs_average_save_sw.html)>

Supply firms in the area had to lay people off, and everyone from taxi drivers to painter decorators felt the squeeze.

Staff numbers at the firm dropped from 5,000 to about 3,500 as workers took up the "Associate Release Scheme".

Moving production of the Jazz from Japan to Swindon is being seen as a clear sign that Tokyo trusts the town.

It also demonstrates how Honda is surviving the global recession relatively well.

The company's two Japanese rivals, Toyota and Nissan, have announced predicted losses for this year of \$4.7bn (£2.9bn) and \$1.9bn (£1.2bn) respectively.

'Not exciting'

Honda, though, will make a "modest profit", as a spokesman puts it, of \$579m (£364m).

So what is keeping Honda in the black? According to many in the motor trade, it is their small, modest cars aimed at Mr and Mrs Average.

The Jazz, Civic, Accord and CR-V (the smallest 4x4 on the market) account for 75% of their sales. One Honda dealer said he had sold 60 Honda Jazzes this year

They are small, fuel efficient, sensible even. In contrast, Toyota and Nissan both went heavily into the US 4x4 market, and have seen sales plunge.

At Swindon's biggest Honda dealership, the Jazz has saved them this year.

Mark Riddiford, the dealer principal at Fish Brothers, says that 2008-9 has been the worst period in his 20 years in the trade.

But the Jazz has sold well throughout. "It's a great car for the scrappage scheme, because it starts at £10,000.

"We've sold 60 Jazzes this year, just in this dealership."

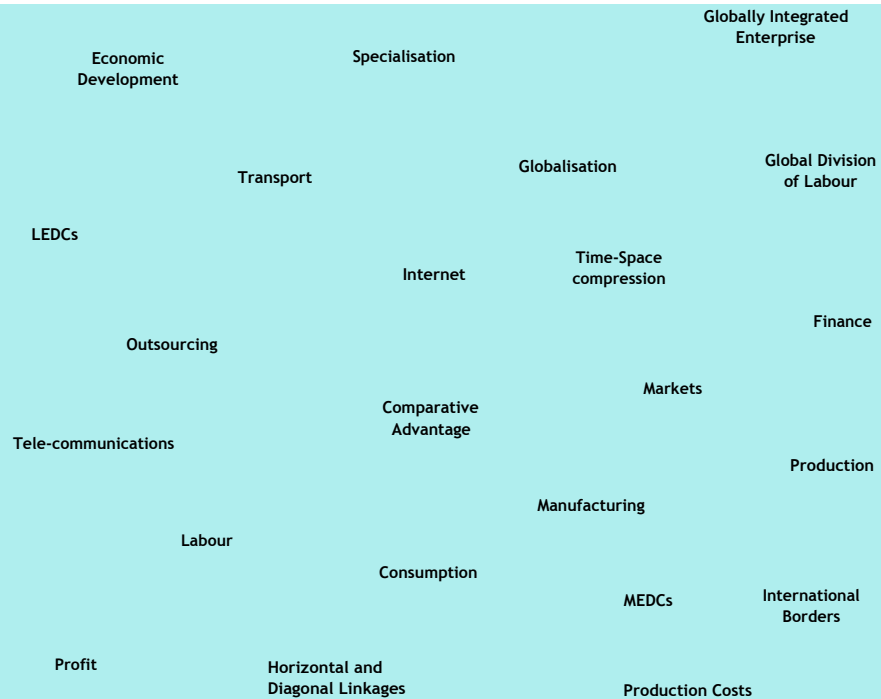
Surprisingly, he does not disagree at the suggestion that the Jazz is not very exciting.

"Hondas don't have to be exciting or fast", he insists.

"They're safe and they're extremely reliable. Exciting doesn't always mean good."

Activity 1

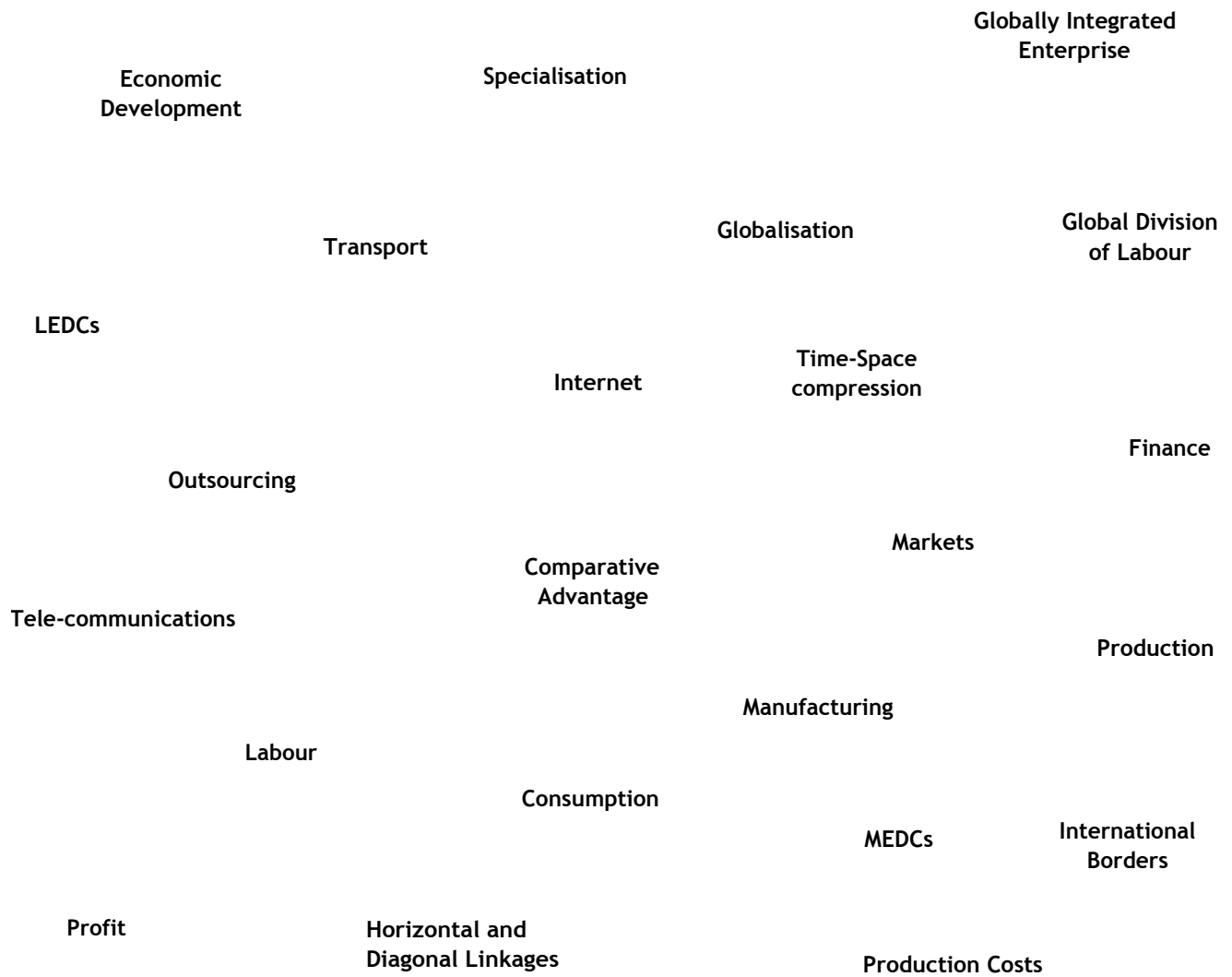
1. On your copy of the following, draw arrows between words that are linked and above the arrow explain why. Use the hand outs to help you.

Activities 2

1. Use your concept map and what you have picked up in this/last lesson to answer the following:

***"How has the concept of 'division of labour' altered the spatial organisation of TNCs?"***

- You should explain your answer fully using key terms and examples where possible.



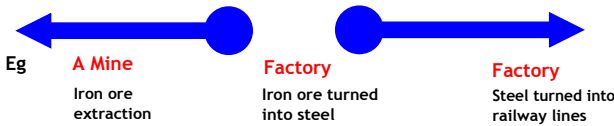
### Industrial Linkages Handout

#### Basic Industrial Linkages

Links join industries together in a variety of ways.

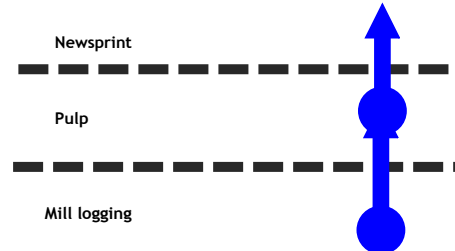
**Backward linkages**  
to firms providing raw materials or component parts

**Forward linkages**  
to firms further processing the product or using it as a component part



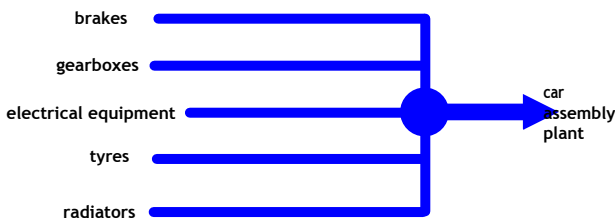
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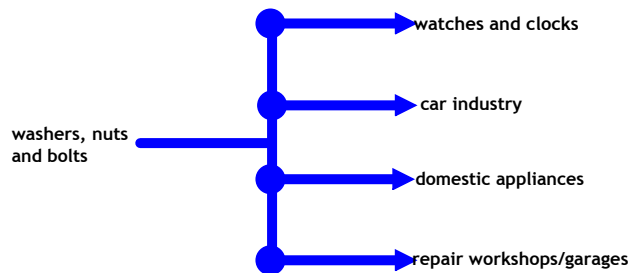
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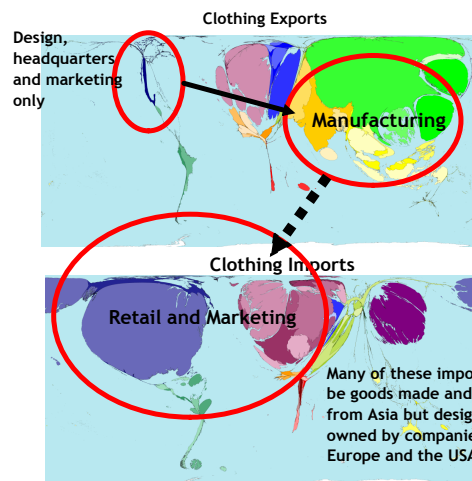
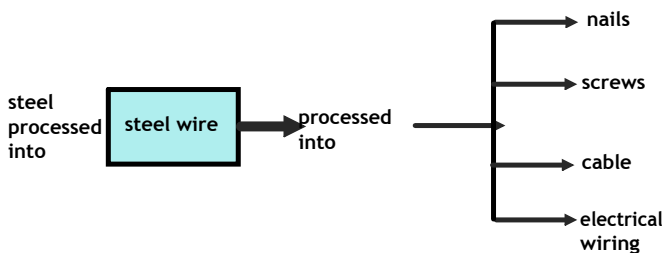
#### Diagonal (multi-destination) Linkages

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#### Technological Linkages

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Many of these imports will be goods made and exported from Asia but designed and owned by companies in Europe and the USA

**Comparative advantage** refers to the ability of a company/country to produce a particular good or service at a lower **cost** than anyone else. It is the ability to produce a product with the highest efficiency given all the other products that **could** be produced. Lets say a company **could** produce trainers, or umbrellas or tape measures but the thing it can do better than anyone else is to make **screws** so that's what it decides to specialise in. If it made all those things it would be less efficient. Meanwhile there are **other** companies that could do all those things but can do umbrellas slightly cheaper than anyone else. therefore it specialises in ...yes you've guessed it...umbrellas! and so on

### Global Division of labour Handout

The Global division of labour has allowed the expansion of world trade and is based on the idea of comparative advantage. This means that countries specialise in the work they can do at the lowest cost. For many NICs (Newly Industrialised Countries) this tends to be low cost manufacturing (clothes). For many of the old wave of NICs (Malaysia) and MEDCs, this tends to be higher value goods (high tech) and services.

The productivity gains of the division of labour are important within any type of production process, ranging from pin manufacture to legal practice and medical care. The productivity gains are a result of a number of mechanisms, as follows:

- Frees workers to focus on tasks that they are best at
- Learning Curve
  - More repetitions leads into learning faster ways to perform the task, causing more efficiency in terms of time. This increases productivity because training time is reduced and the worker is productive in a short amount of time.
- Concentration on one repetitive task makes workers more skilled at performing that task.
- Little time is spent moving between tasks so overall time wasted is reduced.
- Reduces competition within one particular sector

The Global D.O.L is essentially a form of Specialisation. With a large (global) workforce it is possible to divide up the work process and recruit people whose skills exactly match the job requirements. The workforce is more effective. Costs are lowered.

#### Outsourcing

This is subcontracting a service such as product design or manufacturing, to a third-party company. The decision to outsource is often made in the interest of lowering cost or making better use of time and energy costs, redirecting or conserving energy directed at the competencies of a particular business, or to make more efficient use of land, labour, capital, (information) technology and resources. It is essentially a division of labour.

#### Manufacturing

Often companies will develop and market products (NIKE) but leave the manufacturing to other companies that specialise in it. Thus a factory can do manufacturing for several companies and keep a large manufacturing plant operating at nearly full capacity when no individual contract could justify the expense of maintaining the infrastructure. An example of this would be Fables semiconductor companies which do design etc but do not have their own, extremely expensive, fabrication facilities.

#### Research and Development

The competitive pressures on firms to bring out new products at an ever rapid pace to meet market needs are increasing. As such, the pressures on the R&D department are increasing. In order to alleviate the pressure, firms have to either increase R&D budgets or find ways to utilize the resources in a more productive way. Outsourcing is often the means to do this, especially when there are hundreds of thousands of highly skilled graduates in countries like India and China each year.

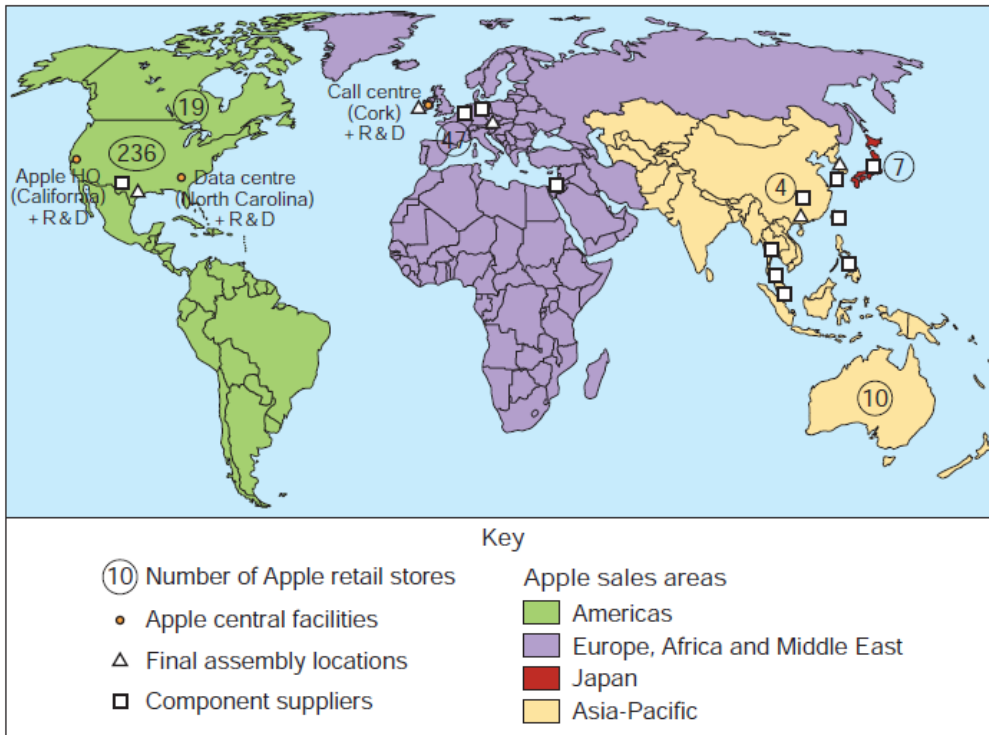
**- Homework 6: Spatial organisation and Growth of TNCs**

**1 3** Study **Figure 5** which shows the spatial organisation of the transnational corporation (TNC) Apple in 2010.

Describe and comment on the information shown.

(7 marks)

**Figure 5**



**1 4** Outline reasons for the growth of TNCs.

(8 marks)



<p>13</p> <p>AO2 - 5 AO3 - 2</p>	<p><b>Notes for answers</b></p> <p>Apple has a distinctive global geography. All but four of its retail stores are in developed countries. There are large numbers of retail outlets in the USA and Canada. Final assembly plants are based in both the developed and developing world. Research and development takes place in California and North Carolina, USA – the country of origin. Cork, Ireland, is the European location for call centre activities + R&amp;D. Like many TNCs, Apple out-sources most production to eastern Asia, both in terms of component suppliers and final assembly of iPods, iPads, iPhones and iMacs – low labour costs, yet high levels of skill? There are also component suppliers in western Europe and Israel. A final assembly plant exists in eastern Europe – relatively cheap again? It is noteworthy that the company separates Japan as a sales area, and yet there are more retail stores in Australia. Europe, Africa and the Middle East are one sales area – a huge area.</p> <p><b>Mark scheme</b></p> <p><b>Level 1 (1-4 marks) (mid-point 3)</b> Statements of description. Limited or basic statements of commentary on the information.</p> <p><b>Level 2 (5-7 marks) (mid-point 6)</b> More sophisticated description with appropriate commentary on the information. Award this level for each correctly attributed statement of commentary.</p>	<p><i>(7 marks)</i></p>
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<p>14</p> <p>AO1 - 8</p>	<p><b>Notes for answers</b></p> <p>Companies expanded from their home base to become TNCs for some of the following reasons:</p> <ul style="list-style-type: none"> <li>• To take advantage of spatial differences in the factors of production at a global scale. One reason is to look for cheaper labour costs</li> <li>• To take advantage of government policies such as lower taxes, subsidies and grants</li> <li>• To take advantage of less stringent legislation on employment and pollution</li> <li>• To circumvent trade barriers</li> <li>• To locate in markets where they want to sell</li> <li>• To grow to a size where they achieve economies of scale, allowing them to reduce costs, finance new investment and compete in global markets</li> <li>• To acquire geographical flexibility so that they can shift resources and production between locations at a global scale in order to maximise profit.</li> </ul> <p><b>Mark scheme</b></p> <p><b>Level 1 (1-4 marks) (mid-point 3)</b> Simple statements of reasons for the growth of TNCs. Limited depth of understanding of factors responsible. Max Level 1 for one fully developed reason.</p> <p><b>Level 2 (5-8 marks) (mid-point 6)</b> More specific or detailed or sophisticated reasons for the growth of TNCs. Understanding of factors responsible is more clear. Support may be given.</p>	<p><i>(8 marks)</i></p>
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Plenary

Give two of the key terms from your concept map to someone else in the room and ask them to explain it

How



are you?