*Explain initially the main driving forces of this globalisation process of manufacturing since the 1980's? Use thereafter a multinational company (MNC) to illustrate what main positive and negative factors a company takes into consideration when deciding where to **locate** its production facilities?*

1. Introduction:

Globalization constitutes the economic shift in companies from domestic (home) to global (host) economic systems. Global trade liberalization facilitates globalization through free-trade, reduced tariffs and quotas with more open economic policies emerging.

2. Driving Forces of Globalized Manufacturing:

Production costs, a function of labour (wages) and productivity costs (turn-around time), is the initial driving force of globalization. Arguably, the main catalyst to globalization since the 1980's is the digital-revolution (Thun, 2017). By codifying information, separation of a product value-chains is possible (Thun, 2017). Low-tariff barriers are necessary for cost effectiveness of each segment of the product value-chain to be outsourced globally.

Corporate-production has expanded since the 1980's. Factors such as cheaper land, labour, capital and technological innovations (e.g. invention of shipping containers and modern-day email) draw multinational companies (MNC's) abroad (Thun, 2017). For instance, developing economies have attracted labour-intensive production activities of MNC's, think China.

Infrastructure development is pivotal for MNC's to extend their geographical location. Modern day commercial freight has decreased delivery time of products for MNC's; and widespread networks have increased global labour mobility (Thun, 2017). Large scale production depends on the spread of resources and machinery tied with technological innovation. This is made possible by Foreign-Direct-Investment (FDI), in the form of capital-factors.

FDI has influences over foreign businesses of MNC's. Often this brings skills-transfer through management expertise from the investing company (O'Brien & Williams, 2013). Three integrative-types of FDI's exist: horizontal (where MNC's duplicate their home-based corporate-activities in same parts of the value-chain in a host-country), vertical (where MNC's use FDI to move upstream/downstream in different parts of the value-chain), and conglomerate (where MNC's use FDI from a source country into a host-based country for purpose of export to a third country) (O'Brien & Williams, 2013).

3. The deciding factors of location for MNC's abroad:

Location and governance are core considerations for global operations by MNC's. Governance is the co-ordination of each separate part of a production value-chain: whether 'arms-length' business contracts, or hierarchical control of foreign operations for these parts (Thun, 2017). The main factors of consideration for location include production costs, product turnaround times, availability of fixed resources, geographical proximity to product markets and the availability of technology (O'Brien & Williams, 2013; Thun, 2017).

For instance: the clothing retailer, Zara, is a good case for how MNC's think about locating in the global economy. In 1980, Zara opened their first factory in home country Spain (Wikipedia, n.d.). Positive factors contributing to location emphasize geographical proximity to markets, product turnaround times and availability of technology. Their market is predominantly Spanish and European, with quality textiles available in Spain (Wikipedia, n.d.).

In 1990, Zara integrated a positive-factor of technology by upgrading to a 'milk-run-type' production and distribution facility designed by Toyota-Motor-Corporation (Wikipedia, n.d.). This scheme enabled self-containment throughout all parts of Zara's value-chain. The result of reducing 'product-life-cycle' meant faster delivery time which offsets the negative-factor of increased labour and productivity costs (Thun, 2017). This was and still is achieved by manufacturing the most stylish items within Spain, Portugal and Turkey, prolonging on-shelf time during the seasons (Wikipedia, n.d.). Currently, basic-clothing such as T-shirts are outsourced to low-cost suppliers in Asia where production cost is lower, but turn-around-times are longer. This is because T-shirts don't go out of style as quickly, thus Zara can afford longer delivery timeframes.

Zara managed to expand without large FDI inflows (Wikipedia, n.d.). They are able to secure value-chains in their own country for Spanish economic benefit. This found a way of creating opportunity in Asian markets to maximize profits through lowering production costs, and alleviating risks by having fashionable clothing production facilities closer to home-base.

Conclusion:

Zara is a good example of an MNC considers the positive and negative-factors of location. This allows alleviation of negative impacts that globalization can have on developed countries, where the problem of unevenly distributed gains from globalization could exist.

Bibliography

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