b
UNIVERSITÄT
BERN

ESPACE

Economies in Space - Working Papers in Economic Geography

No. 2008-4

Uneven financial flows in the global economy

Christian Zeller

January 2008

Uneven financial flows in the global economy

Institute of Geography
Economic Geography and Regional Studies
University of Bern
Hallerstrasse 12
CH-3012 Bern
zeller@giub.unibe.ch
Tel. 031/ 631 85 56

Abstract

This article argues for an integrative understanding of the global economy in its historical dynamics and with its reciprocal effects for different actors on various scales. In the course of neo-liberal deregulation policies and far-reaching institutional changes, concentrated financial capital increased its power. Institutional investors such as investment and pension funds took command over accumulation processes, investments and the division of profits. A finance-dominated accumulation regime emerged. It exerts its power on a global scale and reshuffles uneven development. The increasing power of concentrated financial capital is accompanied by an expansion of property rights and processes of commodification. Incomes from financial yields in form of interests and rents have become more important. Rent income is based on appropriation processes (natural resources, intellectual property monopolies). Such income to a large extent is concentrated in the capitalist core countries. Political power relations and hierarchies between states are substantial determinants of these processes. Particularly considered are processes of creation, capture and transfer of values and resources.

Keywords: finance-dominated accumulation regime, uneven development, rents, financial flows

This article considers the world economy not as an addition of its national or regional entities but rather as a totality which is marked by international financial flows, international division of labor and the world market. Based on an outline of current trends of global uneven development – expressed in financial flows, foreign direct investment and world trade – I name some challenges for research in spatial political economy and economic geography.

I present two messages for discussion: First, uneven development is a central characteristic of capitalism which on various scales is permanently reproduced by the enforcement of new *spatio-temporal fixes* (Harvey, 2003). The uneven development necessary to capitalism is to be analyzed in connection with the emergence of a finance-dominated accumulation regime. Second, in context of the emergence of a finance-dominated accumulation regime incomes from financial yields in form of interest and rents have increased their importance (Chesnais, 2004a). Rent-based incomes have become more important in the entire capitalist economy and on all geographical scales. Such income mostly but not exclusively concentrates in the capitalist core countries in the USA an in Europe.

The current phase of globalization goes far beyond internationalization of productive capital. It is characterized by an increased power of concentrated placement capital in the hands of institutional investors. They control large companies by means of shareholder value-driven corporate governance. This concentrated placement capital strives to increase the appropriation of surplus value on an international scale. Via different channels such as credits, foreign direct investments, portfolio investments and royalties on intellectual property monopolies, the global financial hubs centralize values and resources. In addition, concentrated placement capital valorizes itself though different dispossession procedures. Capital increasingly relies on accumulation processes which consist of acquiring resources and values produced in other regions and forms of social organization. This, in other words, underlines the importance of accumulation by dispossession which is characteristic of the current phase of imperialism (Harvey, 2003). In this context, the growth of foreign direct investment does not necessarily express the extension of productive capacities, but is rather expression of the appropriation of formerly public enterprises by transnational corporations.

The power of financial capital favors interest-based and rent-based income. Such income is based on property rights. The extension of property rights corresponds to one form of accumulation by dispossession. The extraction of values and resources based on property rights is organized on a global scale. This means that strong financial organizations centralize values and resources from all attractive places and areas of the world. In parallel, labor relations and the way firms operate and distribute their profits have changed. Financial capital enforces shareholder value-oriented corporate governance. An increasing share of profits flows towards shareholders at the expense of reinvested capital and of workers' wages.

With imperialist globalization, interweaving and inequalities have risen both on a global scale as well as within many countries. Concurrently, there is a process of selective alignment between single emerging countries and the capitalist core countries, which for their part report varying performances. The previous polarization between north and south is increasingly overlaid by different phenomena of fragmentation. The geography of financial flows, foreign direct investment and trade is characterized by continuing strong relations between the North Atlantic nodes and fast growing poles in China and Southeast Asia. It can be expected that these current financial flows will induce strong money and resource flows back to the donor countries. The extension of world trade, foreign direct investments and portfolio investments having been carried out on the basis of comprehensive processes of liberalization, deregulation and privatization connect the destiny of people in extremely dissimilar social realities with each other. Profiting from this situation the transnational corporations put wage earners into global competition against each other. In short, this uneven development leads to a geography of capitalism which consists of a cascade of interwoven hierarchies and power relations that are economically, politically and militarily enforced. Despite the existence of a world market and a global space of capital valorization, numerous new spatial fosses und dislocations emerge.

I argue for understanding the capitalist world-economy both as a totality and in terms of its historical dynamic. Despite the fact that countries, groups of countries and regions display their own characteristics, relations and developmental paths, they can only be understood in their entirety on a global scale, with internal differentiations with respect to this entirety. In contrast to traditional, regulationist and variety of capitalism approaches, the aim is not to characterize different national or regional models of capitalism and to size up manoeuvrability for new modes of regulation, although, of course, such nationally or regionally specific regulation modes can be important. Instead, the center of interest here is the simultaneously integrative and fragmentizing dynamic of capitalism. Value and resource flows and uneven development are in the focus.

The paper first outlines the emergence and characteristics of the finance-dominated accumulation regime. The second section analyses the different channels of financial value transfer to the financial centers and the owners of property titles. It shows the importance of rents on a global scale. It also outlines how value capture, transfer and accumulation based on property monopolies and rents influences uneven development. The third section analyzes the development of foreign direct investment on a macro-level. Then, the fourth section, discusses the motives of firms to undertake foreign direct investments and possible consequences. Finally, the last section puts the described dynamics into the context of uneven capitalist development and resource transfer. From this picture arise new challenges for critical spatial political economy.

1. Concentrated placement capital, division of profits and dispossession

Rising financial capital

Since the mid-1970s, crises have afflicted the progression of the world economy more strongly than during the previous period. In response, capital has endeavored to clear away the barriers which prevent an increase in profit rate. To achieve this, capital strived to open up new fields and to make the existing valorization channels more profitable. In the mid-1970s, capital owners from rich countries saw themselves not only forced to enlarge the markets for their products but also to profitably invest the enormous amounts of available capital, primarily the money that petro-monarchies had placed in U.S. and European banks. As a response they lent this money to the peripheral countries to stimulate the demand for products produced in metropolitan countries. This process was an expression of efforts to postpone over-accumulation, temporally and spatially, via new *spatio-temporal fixes* (see Harvey, 2004). This recycling of petro-dollars rapidly led to an uncontrolled increase in the indebtedness of many peripheral countries which was reinforced all the more when the U.S. abruptly and strongly increased the interest rates in 1979 and in subsequent years. The debt spiral quickly began to turn infernally. These events corresponded to a form of accumulation by dispossession (Harvey, 2003). The indebtedness additionally intensified through the recession of the early 1980s. After the Mexican crisis in 1982, the IMF began to force the indebted countries to accept the notorious structural adjustment programs. The consequence was an almost permanent reconstitution of the external debt and a standstill in the economies concerned. Typically enough in Latin America, the 1980s were called the “lost decade” (Toussaint, 2000).

But it was even more in the capitalist core countries that the creation of credit money through gigantic debt by means of government bonds, particularly US-government bonds to finance the federal deficit, enabled an enormous capital flow into the financial sector. The installation of a bond market completely open to international financial investors was aided by the “securitization” of the effects of public debts. This “securitization”, the rise of interest rates and the liberalization of international capital movements took place in a period when pension funds (in Anglo-American countries) and insurances (in most other countries) increasingly were looking for large and secure opportunities to place huge amounts of monetary capital. In subsequent years, in the peripheral, emerging and capitalist core countries, public debt continuously nurtured financial accumulation. Public debts also facilitated austerity policies through the shortening of public expenditures and privatizations (Chesnais, 2004b: 21ff).

The policies of liberalization, deregulation, privatization and revocation of social and democratic achievements practiced by the US and UK governments since the late 1970s and then adopted by most governments based on massive defeats of the labor movement, created the institutional bases for the enormous concentration of finance capital. The centralization and concentration of money capital in the hands of finance enterprises and institutional investors such as insurances, investment, mutual and pension funds and to a lower extend banks were essential prerequisites for the increased power of financial placement capital. The introduction and strengthening of private capital-fed retirement systems, first in the Anglo-American countries, Japan and Switzerland and many other countries were decisive for this development. In Europe the Single European Act of 1986 and the establishment of a financial and monetary policy at the EU level decisively drove financialization. This act forcefully pushed financial deregulation and free circulation of capital. US pension funds were given the freedom to operate on the securities market in the EU countries (Coriat, 2006: 70f). The financialization in the different European countries evolved specifically depending on the role of the stock markets, the banking system, the pension funds and the extent of privatizations

(Jeffers, 2004 2457). Freed from institutional restrictions the capital markets offer financial investors the necessary liquidity, thus the privilege to get out of a market in the shortest possible time (Chesnais, 2004b; 2006: 35).

In a broad sense financial capital can be defined as concentrated capital in the form of money whose owners expect revenues (interests, dividends) based on ownership and/or a yield on selling the property or creditor title (Robinson, 1956: 247). Financial capital represents a specific economic relationship that permits the owners of property titles (shares), promissory notes (bonds, loans) and liquid assets to obtain an income, even she/he is outside every participation in the value creation process. The opening up of new fields for capital accumulation takes a pivotal role. Thus, financial accumulation means the centralization in specialized institutions of not-reinvested industrial profits and not-consumed revenues for the purpose of valorization as financial placements, such as devises, bonds and stocks outside the production of goods and services (Chesnais, 2004a: 225; 2004b: 31).

Due to its power, financial capital in the form of investment and pension funds can acquire an increasing portion of profits as revenue from placements on stock markets, rents and ground rents as well as from public debt service. These interest- and rent-based incomes are only legitimized by possessed fortunes, even if the owner stands outside the reproduction process (Marx, 1981: 500). Thus, this financial capital valorizes and grows as interest- and rent-bearing capital by absorbing a part of the profit (Marx, 1863: 462). This, however, requires an increase of surplus-value rate and a sufficient accumulation of productive capital (Chesnais, 2004b: 31).

Robinson makes the conceptually important distinction between financial placements and investments. Placement means the purchase of titles to debts or shares, which is financed either from savings, from income or from the proceeds of selling other property. In contrast, investment designates using financial resources for creating capital goods (Robinson, 1956: 8). This clarification helps to grasp the nature and effects of different capital transfers such as credits, investments and portfolio investments. Interests and rents have large similarities. In line with Robinson, we can designate the position of financial investors as that of rentiers. In this sense, rentiers are owners of placements. Rentiers are *"capitalists in their aspect as owners of wealth, as opposed to their aspect as entrepreneurs. We include in the incomes of rentiers dividends as well as payments of interest ..."* (Robinson, 1956: 247). Whereas interest is a contractual payment for the loan of finance, rent is a contractual payment for the hire of land and buildings (Robinson, 1956: 13) as well as of intellectual property (Zeller, 2008). Following Robinson we can consider interest as a financial rent to which the property title of a security gives the right.

Thus, in the sense of Robinson, both credits as loan capital and stocks as equity capital can be instruments for capturing and centralizing rentier income flows. Credit assumes a double role. As long as credits flow into production, the sums from financial centralization serve the "normal" accumulation of capital. But the constitution of money capital as an "autonomous sort of capital" (Marx, 1894 56: 390) makes it possible for financial centralization to serve operations which hardly aim to accumulation, but rather to create conditions of appropriation outside production. Included in this are massive appropriations, which, as in the case of credits to poor and peripheral countries, can be described as predatory. The debt service relies on capture of surplus value and surplus labor in all their capitalist and pre-capitalistic forms. Forced debt service, moreover, is an instrument of political and economical dominance which can lead to processes of de-industrialization, as in Argentina in the 1990s. The credit system and debt servitude reduces entire populations and countries to a condition of continual debt service paid by their labor (Harvey, 2003: 147). As with credits, dividends also increasingly became an instrument for capturing produced values, transferring and accumulating them. The extraction and transfer of values through rents on a global scale is a basic feature of the finance-dominated accumulation regime. Different studies show that rentiers incomes greatly increased their shares of national income in most OECD countries since the early 1980s. However, these shares and increases vary substantially between the different countries. Not surprisingly, the countries where financial capital achieved the strongest positions such as the USA and the UK record the highest share on financial respectively rent income. Monetary policy with high real interest rates, financial liberalization and reduction labor union power favored this development (Power, et al., 2003; Epstein and Jayadev, 2005). The financial markets became the central arena of this process of value capture.

The increased centralization and concentration of capital as well as the sharpened polarization of wealth are worldwide processes. The finance-dominated regime of globalization has strengthened property rights everywhere and has intensified appropriation mechanisms, which are based on the exploitation of labor and use the extraction of rent income. The transnational companies, banks and primarily investment funds have considerably extended their freedom to circulate capital in their own interests. They continually find new possibilities of acquiring riches and resources localized outside the metropolis countries (Chesnais, 2006: 35f).

Originating in the United States, the finance-dominated accumulation regime unfolds its effects on a global scale. The reasons for this include the co-action of the liberalization and deregulation of trade, investments, currency transactions and capital flows; the effects of information and communication technologies which enable international *real time* management; and the central roles of the IMF, the World Bank and the WTO. In fact, the world economy is characterized by a very strong hierarchization and differentiation between countries.

The securitization of bonds in liberalized and deregulated markets, a rise of the dollar exchange rate between 1980 and ‘83, and the fixing of interest rates by the bond market enabled the U.S. to quickly attract the liquid resources of the world. In doing so, the USA was able to acquire a dominant position in global financial markets. After the Plaza treaty in 1985, which accepted the devaluation of the US dollar against the European currencies and mostly against the yen, the USA managed to increase its exports considerably. The recession of 1991-92 stopped this period of growth. Subsequently, the USA could use its dominant position in the world system to practice a monetary policy in the interest of the banks' liquidity and of low interest rates. Other countries did not have such a financial scope at their disposal. The special role of the US dollar in global finance and trade systems releases the US from permanently rethinking the credibility of their currency. Therefore, the significant growth of the U.S. economy during the so-called *new economy period* from 1992 to 2000 cannot be viewed independently of the U.S.'s position in relation to other economically powerful countries (Brenner, 2002: 59ff; Duménil and Lévy, 2004b).

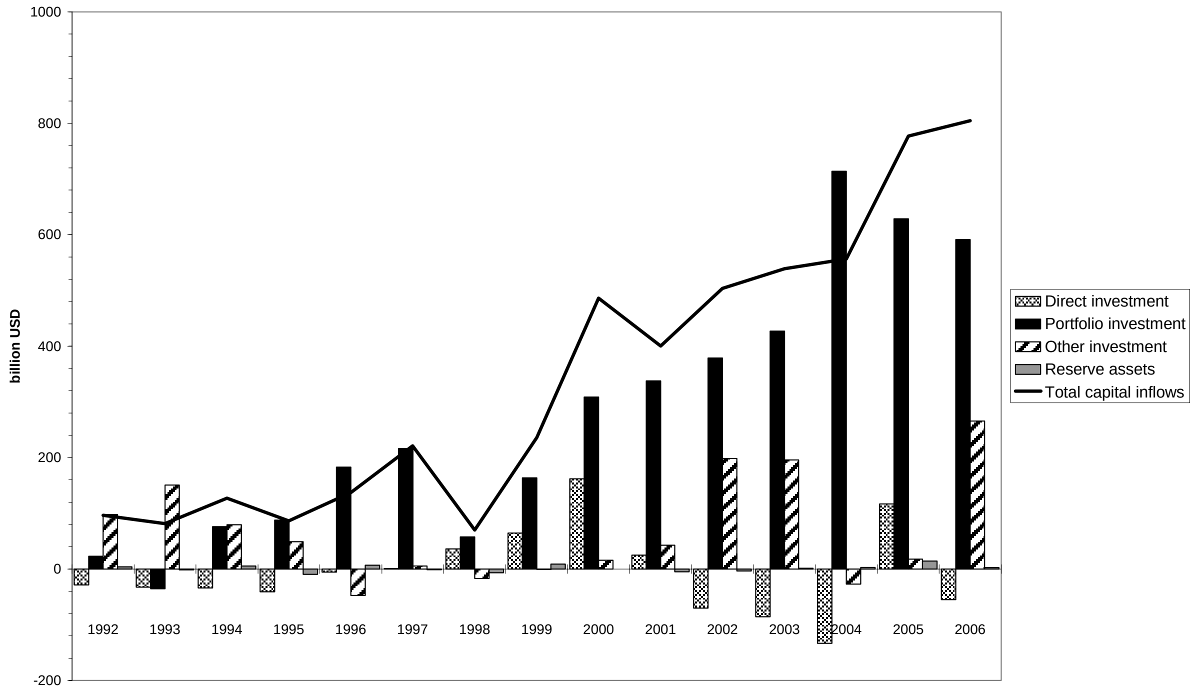

Fig. 1: Net capital inflows to the USA 1992–2006
Source: calculated after IMF data (2003: 140f; 2006a: 152f; 2007: 136f)

The U.S. could only afford its enormous consumption and the balance of its trade deficit due to vast capital inflows from Europe and Japan, and, after the Asia crisis 1997, also from Southeast Asia and primarily China (Brenner, 2002: 206ff; Duménil and Lévy, 2004b:81ff). Its geo-economic and geo-political power enabled the U.S. to transform itself from the word's largest net exporter of goods and capital to its largest net importer of goods, capital and human abilities. In parallel, the persistent current-account deficits have transformed the USA from being the world's most important creditor nation (with a net international investment position of 13 percent of GDP in 1979) to being the world's largest debtor (with a net asset position of –21 percent of GDP in 2004). (World Bank, 2007: 29). In this respect, the financial capital concentrated in portfolio investments and investment funds is taking on a special role (see fig. 1) (IMF, 2003: 127, 140f; 2006a: 152f). The U.S. has been able to consolidate its position in worldwide financial markets since the end of the 1970s. Thus, the U.S. takes the position of a dominating "rentier state", meaning its accumulation is increasingly based more on forms of appropriation than on the creation of added value (Chesnais, 1999). Basically, this also applies to the financial centers in Europe. At the same time, Japan and the emerging Asian countries have accumulated enormous dollar surpluses since the early 1990s, which they in turn lend to the U.S. Japan and China held almost half of the U.S. debt titles financed by foreign countries at the end of 2004 (Serfati, 2006: 80; cf.

Schoettli, 2007). Investors from these countries obtain financial yields while at the same time financing. a part of the U.S.'s imports from them.

The North Atlantic zone (North America, the EU and Western Europe outside the EU) takes a central role in world trade, has the strongest position in direct investments and dominates the area of financial capital. Financial centers and institutions in the USA and in Europe together concentrate respectively between 70% and 90% of worldwide fund assets, finance derivatives, revenue of investment banks, market capitalization, foreign exchange markets, bond loans, shares and creditor titles as well as bank balances. Moreover, the U.S. still performs with clear superiority within the North Atlantic zone at fund assets, derivatives, revenue of investment banks and market capitalization (Serfati, 2006: 75f).

The worldwide assets of funds rose to a record high of 20.9 trillion USD at the end of 2006. 10.4 trillion USD of this was concentrated in the U.S. and 7.9 trillion in Europe (DWS, 2007). The stock of global financial assets reached 140 trillion USD in the year 2005, according to a study of McKinsey & Co. The United States, United Kingdom, the Eurozone and Japan accounted for more than 80% of the total. From 2001 to 2005, the U.S. alone absorbed an average of 85% of total global capital flows, or over $500 billion each year, to fund its budget deficit. The United States plays the role of the world's financial intermediary, receiving mainly debt inflows but sending out equity and FDI outflows (McKinsey&Company, 2007: 7, 17f). Thus, capital movements on the New York stock exchange can exert effects of worldwide consequence.

2. Hierarchies in the global economy

Uneven financial flows and centralization of values

Uneven development of capital is accompanied by different forms of value transfer. In the 1970s, lively debates flared up over value transfer resulting from different productivity levels in the context of the unequal exchange. Also, migration and brain drain have been substantial channels of resource transfer. These aspects cannot be taken up here. The central focus of this contribution are the financial flows which placement capital is able to centralize and by so doing increase its economic power.

Here, I only focus on the question how financial placement capital centralizes financial flows and by doing so shapes uneven development. Harvey explained how capital temporarily and spatially fixes its repeating problems of over-accumulation by mobilizing, transferring and fixing capital on new (or renewed) places and by doing this creates repeatedly new spatio-temporal fixes (Harvey, 1982: chapter 13, 442ff; 2003). These capital transfers induced new capital flows back to the capital owners. These back flows increasingly take the form of interests and rents.

The international private financial flows serving to acquire values abroad can be arranged into four different categories: credits from banks or financial organizations, purchase of bonds on the issue markets, direct investments and portfolio investments. Although highly important, the remittances and their contradictory character cannot be dealt with here, nor is official foreign aid a topic for this paper (Tab.1).

Although the financial flows between the different capitalist core countries largely dominate, in accordance with World Bank figures, the record sum of 571 billion USD flowed net to developing countries in 2006 (World Bank, 2007: 35). The composition of private capital flows to peripheral and emerging countries strongly shifted to equity participations over the course of the last upswing, predominantly as foreign direct investments. On average, direct investments accounted for 57% of private capital flows, compared to portfolio investments (9%) and short- and long-term bank debts combined (33%) from 2002 to 2005. Still, in the mid 1990s, bank debts amounted to 42% (World Bank, 2006: 143).

The foreign indebtedness of states, but partly also the indebtedness of banks and local enterprises, is connected to loans and bond loans. The distension of public debts since the 1970s induced a steady capital flow to the owners of debt titles in metropolitan countries. The peripheral countries were submitted to a logic that forced them to settle an eternal debt and to spend a considerable part of their export revenues and tax income on this. The entire foreign debt of the developing countries increased to approximately 2,800 billion USD in 2005 (World Bank, 2006: 193), though the countries of the south had already paid approximately 4,600 billion USD to their creditors between 1980 and 2002. That corresponds to a sum eight times higher than what they had originally borrowed. The price for this is paid by their populations through cuts in public, social and infrastructure expenditures as well as constant high unemployment (Serfati, 2004a: 38; 2006: 88).

The acquisition of bonds in issuance markets and portfolio investments[1] strongly rose in the countries with "emerging financial markets". With the emergence of local bond markets connected to the financial markets of the metropolitan countries, the possibility has arisen to convert debt into tradable security titles. The emission of bonds at market prices has partly replaced loans negotiated by foreign banks in the countries with liberalized financial markets (World Bank, 2006: 45ff, 65). Therefore, the amount of bank loans has decreased in favor of the emission of tradable bonds as a means of creating and reproducing public debts. The liberalization of financial markets in the emerging countries has also opened up pension and investment funds a welcome form of surplus appropriation so far reserved only for banks (Chesnais, 2006: 41).

The stock exchange enables equity participation in local companies, as long as these have not already been integrated by transnational companies. Undertaking portfolio investments, institutional investors acquire enterprise shares and thereby delegate the "value creation

[1] In accordance with the definition of the UNCTAD (2003: 231), international direct investments express a durable interest in a firm abroad. The goal of the investor effectively influences the firm. The UNCTAD refers to direct investment if the investor has at least 10% of the shares or voting rights in a firm. It is assumed that commitment of this size has a long-term character directly permitting a direct influence on the firm. In contrast, a commitment under 10% is understood as a portfolio investment. However, this definition wrongly assumes that portfolio investors do not exert influence on the guidance of a firm in which they posses shares.

process” to the local companies, which must nevertheless submit themselves to the rules of shareholder, value-driven corporate governance. Portfolio investments in shares of local enterprises are quite volatile. In the years 2003 to 2005, they flowed to a large extent to China, India and Southeast Asia (World Bank, 2005, tab. 1.3; 2006: 52).

The deregulation of the international capital markets has made it easier for firms in developing countries to borrow money from the international capital markets. This helped reduce public indebtedness as a share of the entire foreign indebtedness from 82% in the years 1990-95 to 69% in the years 1996-2003. In connection with the partial substitution of bank credits by bonds, the domestic indebtedness of governments and firms has increased in countries with “emerging financial markets” (World Bank, 2005: 69ff; Chesnais, 2006: 43). Thus, the decrease of the external debts was bought by an increase of domestic indebtedness.

Tab. 1: Net capital flows into developing countries 1996–2005 in billion USD
Source: World Bank (2005: Tab. 1.1; 2006: Tab. 1; 2007: Tab 2.1)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005e	2006e
Current account balance	-83.6	-84.5	-96.7	-19.1	34.4	12.1	60.5	101.9	113.6	256.4	348.5
as % GDP	-1.7	-1.5	-1.7	-0.3	0.6	0.2	102	1.5	1.4	2.7	3.1
financed by:											
Financial flows											
Net equity flows	161.4	199.3	175.8	189.6	179.9	176.6	162.9	184.3	257.7	347.5	418.8
Net FDI inflows	128.6	168.7	170.0	178.0	166.5	171.0	157.1	160.0	217.8	280.8	324.7
Net portfolio quity inflows	32.9	30.6	5.8	11.6	13.4	5.6	5.8	24.3	39.9	66.7	94.1
Net debt flows	123.7	107.2	53.1	20.0	1.2	14.5	11.3	77.7	128.2	133.2	152.2
official creditors (World Bank, IMF and others)	3.8	13.1	35.5	14.0	-5.9	26.6	5.0	-12.1	-26.6	-70.7	-75.8
Private creditors	119.9	94.1	17.6	6.0	7.1	-12.1	6.3	89.8	154.8	203.9	228.0
Net medium and longterm debt flows	82.5	85	82.9	23.3	13.4	11.6	5.8	34.8	86.4	136.2	156.0
Bonds	49.5	38.4	38.8	30.1	20.9	10.3	10.4	24.7	39.8	55.1	49.3
Banks	30.7	44	49.4	-5.3	-3.8	7.8	2.3	14.5	50.6	86.0	112.2
Others	2.3	2.7	-5.3	-1.5	-3.7	-6.5	-6.9	-4.4	-4.0	-4.9	-5.5
Net short-term debt flows	37.4	9.2	-65.3	-17.3	-6.3	-23.7	0.5	55.0	68.4	67.7	72.0
invested / placed in:											
Balancing item*	-111.2	-169.5	-114.6	-158.1	-170.4	-122.4	-60.2	-69.1	-95.5	-345.4	-286.5
Change in reserves	-90.4	-52.4	-17.6	-32.4	-45.1	-80.8	-174.4	-294.7	-404.0	-391.7	-633.1
Memo items											
Bilateral aid (without tech. cooper.)	26.7	25.3	26.7	28.5	28.7	27.9	32.5	43.7	50.3	52.6	50.7
Net private flows (debt + equity)											
Net official flows (aid + debt)	30.5	38.3	78.0	58.4	37.4	70.3	55.6	51.5	43.9	0.6	-5.2
Workers’ remittances	n.i.	71.2	72.1	76.6	83.8	95.3	116.2	143.8	163.7	189.5	199.0
Repatriated earnings on FDI			28.7	27.8	34.6	43.8	43.2	53.4	73.8	107.0	125.0

e estimate

* Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing country private entities

Through the channel of direct investments, foreign firms directly organize the exploitation of local energy resources and raw materials as well as the production of intermediate products and consumer goods in the “recipient countries”. The take-over of privatized service firms or local banks financed by direct investments makes it possible to open up lucrative revenue flows on local markets. The balances of payments by the U.S. and most metropolitan countries with large transnational companies show a positive balance of incomes from direct investments (Duménil and Lévy, 2004a: 664; Serfati, 2006: 84f; BEA, 2007: Tab. F2).[2] The transnational corporations usually centralize between 50 and 70% of the yields from direct investments in their countries of origin (UNCTAD, 2006c: 186; World Bank, 2007: 53). The liberalization of exchange rates and of investments as well as the bilateral investment agreements, which are even more favorable for transnational companies, facilitate operations for appropriating and centralizing values by means of direct investments.

Direct investments: expression of concentration of capital

In difference to trade foreign direct investments do not have an immediate, closing (like a payment order) or retarding (like a commercial credit) character. They are not limited to a punctual transaction. They have rather a continuous dimension. The investment decision induces further capital flows and entwinements (production, trade, transfer of profits), which last during longer periods. The direct investments embody the transfer of property rights and of economic power. Finally, the investment decision implies a strategic component. The aim is to penetrate a market. The accumulated stocks of direct investments express the structural conditions, meanwhile the flows express the capital movements during one period (see fig. 2 and 3).

In 19th century, long-term international portfolio investments dominated. They financed government loans and the construction of large infrastructures. In the phase before World War I the emerging multinational enterprises undertook their first large direct investments. They first established sales organizations and then manufacturing plants abroad. In the 1930s and 1940s foreign direct investments strongly decreased. Their relative weight attained only in 1965 again the level of 1914. During the post-war period the USA became the most important investor. The capitalist core countries displaced the peripheral countries and, in parallel, the industry, and afterwards the services, supplanted the primary sector as main destinations of investments. The exponential rise of international direct investment since the mid-1980er years clearly exceeded the increases of production and exports. In the course the crisis beginning in 2000 foreign direct investments substantially declined. Since 2003 they clearly rose again. In 2005, the stocks of direct investments amounted to approximately 10.7 trillion US dollar and was twenty times higher than in 1980 (see fig. 1). The acquisitions and fusions dominated in relation to investments for the creation of new capacities. From 1986 to 1989, from 1998 to 2000 and again in 2005 and 2006 occurred real take-over waves. In 2005, the value of transnational acquisitions and mergers amounted to 716 billion US dollar (Andreff, 1996: 10, 27; OECD, 2003: 8; UNCTAD, 2003: 15, 68, 249; 2006c: 3, 13, 318).

[2] American investments abroad earn a significantly higher rate of return than do foreign investments in the United States (6.9 percent vs. 2.5 percent over the past 10 years) (World Bank, 2007: 29, fn 23).

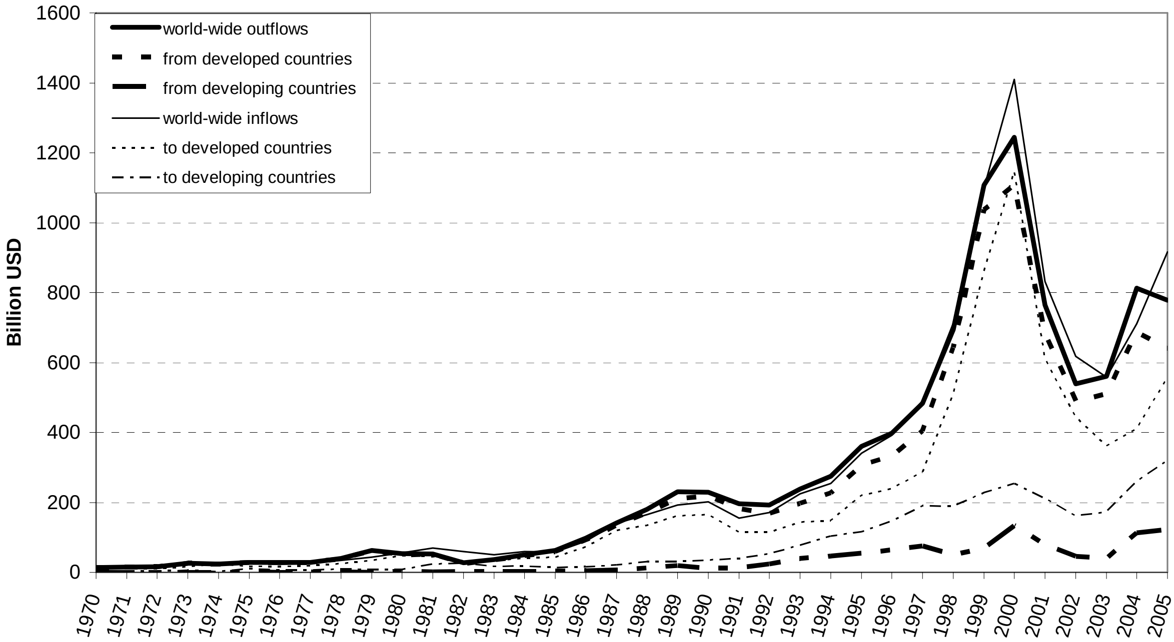

Fig. 2: Foreign direct investment between 1970 und 2005
Source: compiled based on UNCTAD (2006a)

A special characteristic of the recent take-over boom and expression of increasing financialization is the rising importance of investment funds, primarily private equity and hedge funds. Low interest rates, high liquidity and institutional facilitations for transnational capital flows encouraged investment funds to invest abroad. Private equity funds collected approximately 261 billion USD in 2005. They placed half of this amount as foreign direct investments. Mutual funds were responsible for approximately 20% of the transactions of all transnational mergers and acquisitions in 2004 and 2005. But they make their commitments not on a long-term basis. Usually after five to six years investment funds cash in their yields and turn to new objects. Therefore, such transnational investments are similar to portfolio investments. In order to correspond to the shareholders' requirements for high and fast yields, also transnational corporations shortened the time horizon of their investments (UNCTAD, 2006c: 16ff).

The altogether relatively small portion of services on world trade contrasts with their strongly risen portion on direct investments. Many services particularly in education, social welfare and health care are spatially bound or embedded in certain social contexts (Lovering, 2001). Still at the beginning of the 1970s services only covered approximately a quarter of the global inward stocks of foreign direct investments. Between 1980 and 2004 they rose from 43% to 62% in the metropolis countries. Likewise they came to approximately 60% in the peripheral and emerging countries in 2004 what corresponds to an eightfold increase since 1990. Scarcely two thirds of the global annual inflows of direct investment went to services 1999-2004 (UNCTAD, 2002: 158, 181; 2003: 192; 2004: 98; 2006a: 266ff). The increasing internationalization of services is also expression of the historical tendency of a shifting social demand to services (Husson, 2004). In view of this increasing importance of services the TNCs are anxious to strengthen their access to this sector. The GATS (General Agreement on Trade in Services) opened them new opportunities.

After the share of direct investments in the extraction of natural resources had decreased in the 1980s and 1990s, its importance again particularly escalated in recent time, primarily with transnational fusions and acquisitions. Transnational acquisitions in extractive industries rose around sixfold to a share of 16% in 2005. Direct investments in the mining industry and in the oil production particularly preponderate. Forgotten a long time, Africa again becomes a target of transnational corporations (UNCTAD, 2006c: 7ff, 45).

Uneven economic integration through foreign direct investment

In the last two decades foreign direct investments concentrated predominantly on the capitalist core countries in the North Atlantic zone as well as on China, the emerging countries in Southeast Asia, and to a smaller extent on Mexico, Brazil and Argentina. The North Atlantic zone as dominating pole of the world economy transacted approximately 83% of the outflows and received 67% of the inflows of foreign direct investment in the period between 1997 and 2005. In 2005, this area combined 81% of the outflows and 67% of the inflows (UNCTAD, 2006a) (fig. 3 und 4).

Foreign direct investment outflows, stocks 2005
total 106718 billion USD

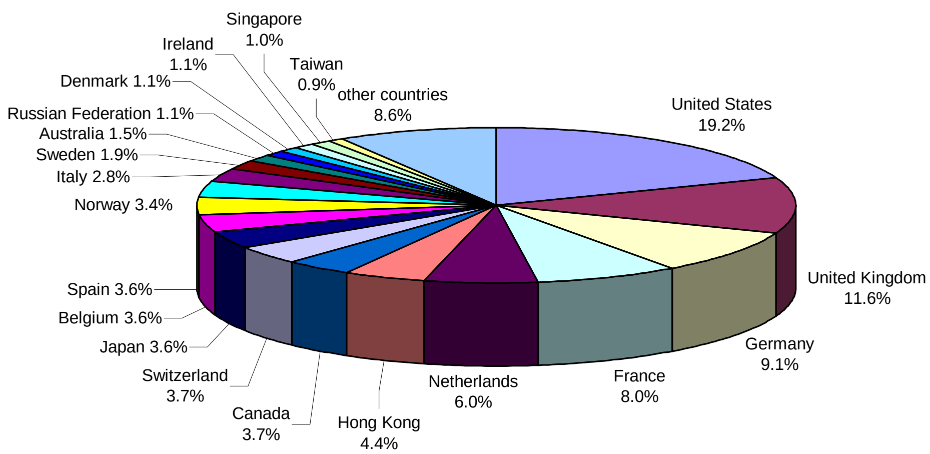

Fig. 3: Foreign direct investment outflows, stocks 2005
Source: compiled based on UNCTAD (2006a)

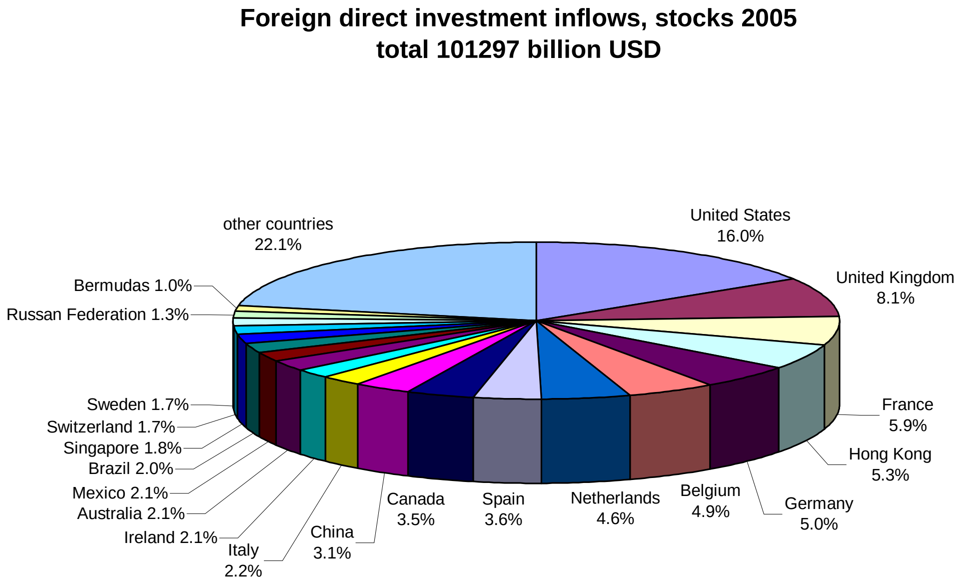

Fig. 4: Foreign direct investment inflows, stocks 2005
Source: compiled based on UNCTAD (2006a)

European direct investments strongly increased from the mid-1980s until 2000, and again after the following drop since 2004, in particular in direction to other European countries and the USA (fig. 4). Europe transformed from the most important target area in the 1970s to the most important origin of direct investment. The USA was the most important destination of foreign investment during the 1980s (fig. 6). Still in the 1960s, US companies were responsible for half of the world's foreign direct investments. Although this dominance is broken, the furthermore enormous capital stocks of the USA abroad underpin the international anchorage of US-American companies (see fig. 3).

European and Japanese companies acted as large investors in the USA in the 1980s and 1990s. This offensive was motivated by striving for larger market power, the acquisition of American technology, the expectation of higher profitability in the USA, and the evasion of American protectionism. The USA had a considerable capital requirement and were sufficiently attractive to attract the necessary capital. The crisis of 2001 temporarily interrupted this inflow of direct investment. Since 2004, the USA again registers a strengthened inflow of direct investment. Though, in 2005, its level only corresponded about to that one in 1996. Portfolio investment however doubled in relation to the level in 2002 to $909 billion in 2005 (IMF, 2006b: 92; UNCTAD, 2006a).

For some years, China is by far the most import recipient of direct investments among the emerging countries. Also during the down-turn of direct investments in the course of the recession after 2001 the inflows continued to increase. China, after the USA and Great Britain, received the third biggest amounts of direct investment in 2004 and 2005. However roughly 25 to 50% of the FDI inflows originate from China itself and are so-called *round* *triping investments*. Chinese companies want to profit from special privileges offered to foreign investors in China. They channel the capital to Hong Kong. There, their local branches reinvest it in China. Also the direct investments from Taiwan, Macau and Singapore are large (UNCTAD, 2006c: 12). Enterprises of Chinese networks abroad as well as European and US-American companies erecting production infrastructures in China are the major investors. In this context closely interlaced growth areas developed in Southern China and the neighboring countries (UNCTAD, 2003: 42, 78; 2006c: 12ff). The transformation to capitalism, advanced by the party and state bureaucracy of China, offers a welcome field to international capital to place surplus capital. China has become a real sink for surplus capital and developed as an important industrial site for US-American and European companies (Harvey, 2003).

The portion of the peripheral countries (after discount of China, Hong Kong and Singapore) at the FDI inflows remained modest. It varied from between 10 and 21% from 1990 to 2000. Since the trough of scarcely 10% in 2001 a rise of the share to approximately 21% in 2004 and 2005 can be observed (see fig. 5). In the course of financial crises in the emerging markets FDI inflows decreased. After devaluation crises many companies from the metropolises were encouraged to favorably acquire domestic firms what again increased direct investments (UNCTAD, 2006a). The flows of direct investments concentrated on approximately a dozen of origin and target countries. Except the countries of Southeast Asia (China, Hong Kong, South Korea, Malaysia) as well as Brazil and Mexico and recently India which have been interesting targets for direct investments also after the crisis of 1997, most other areas of the periphery, in particular Africa as well as wide parts of South America and Asia, have to a large extent been suspended from the flows of capital. Only in the last years again more capital has flown to Africa particularly into the exploitation of mineral resources. Manufacturing hardly played a role. This way no bases have been established for an enduring economic development (UNCTAD, 2006c: 45, 185).

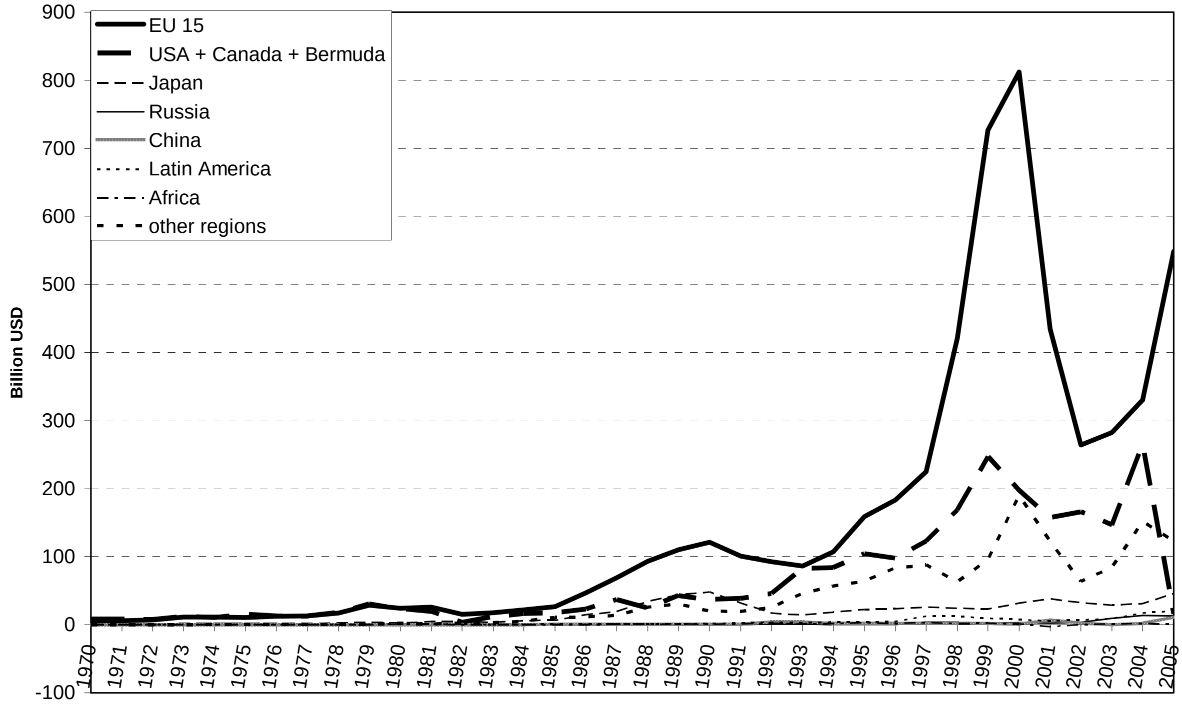

Fig. 5: Development of foreign direct investment outflows between 1970 und 2005, macro-regions
Source: compiled based on UNCTAD (2006a)

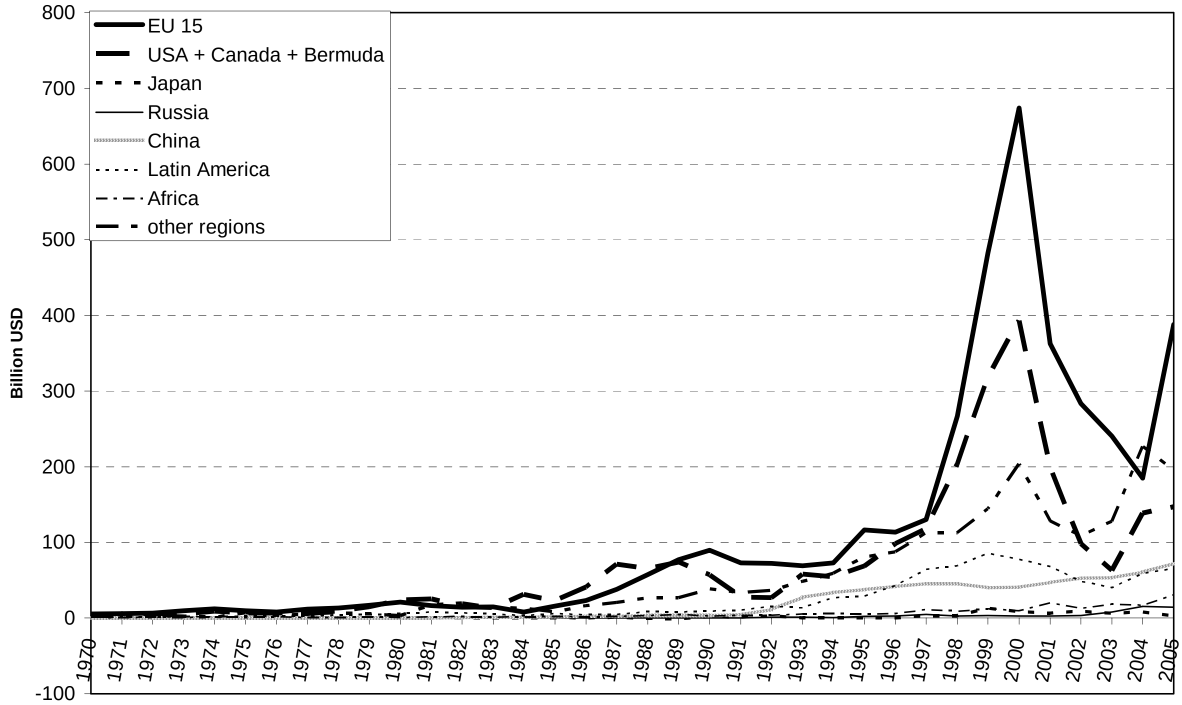

Abb. 6: Development of foreign direct investment inflows between 1970 und 2005, macro-regions
Source: compiled based on: UNCTAD (2006a)

World trade as expression of financial flows and direct investments

After world trade had sunken on a historical trough between the world wars in the course of protectionist crisis policies the exports strongly rose during the boom phase of the so-called "golden age" of capitalism. This development accelerated after the crises in the mid-1970s and the early 1980s.

The patterns of world trade reflect the elements of globalization of financial capital and the increase of direct investments. The emerging European block dominates world trade. The North Atlantic relations take the largest extent as is the case with financial flows and direct investments. Striking however is the relative decrease of importance of the USA and the ascent of China as an export power (fig. 7, 8, 9). Observing the USA as well as Southeast Asia and China it can be illustrated how internationalization of trade is connected to the pattern of direct investments and other financial flows.

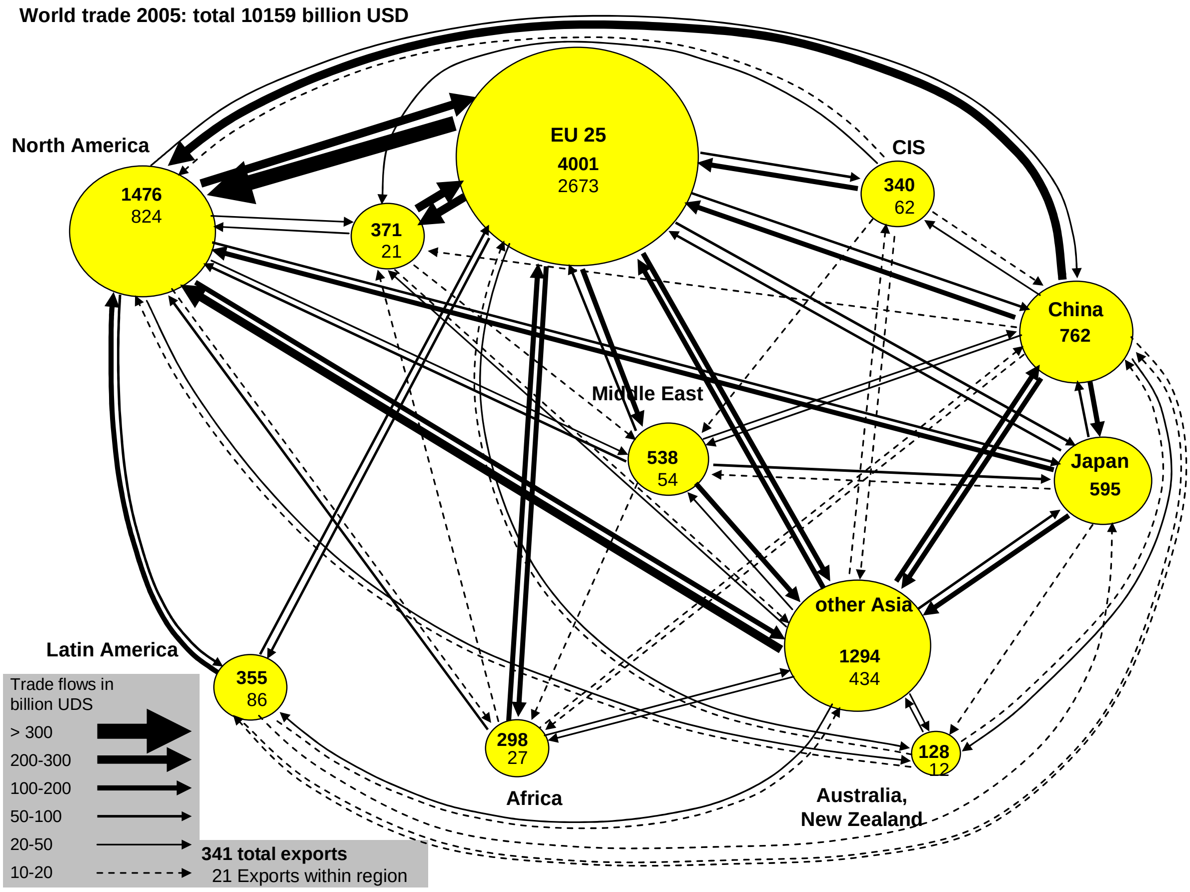

Fig. 7: Most important flows in world trade 2005
Source: compiled based on WTO (2006: Tab. A2; 2003)

With relative low dollar exchange rates in the 1990s and during the upswing phase of the *new economy* the USA were able to temporarily upturn the trend of sinking share on world trade continuing since the 1970s. But since 2001, the USA's share both at goods and service exports have sunken to 8.7% respectively 14.7% in 2005 (see fig. 7). The services account of the USA is still positive. But the import of goods and services grew substantially faster than the exports in the last two decades. The imported goods exceeded the exports almost twice in 2005.

The USA exhibit a negative balance of trade with all other poles of the world. During the boom in the 1990s the USA's trade balance deficit (goods and services) rose to $406 billion in

2000 and since increased even to $764 billion in 2006 despite a recovery of the exports after the crisis 2001/02 (WTO, 2006: Tab I.9, A8, A9; U.S. Census Bureau, 2007:3). This trade balance deficit, which goes along with the public and the private indebtedness, is only possible because of continuous capital inflows in form of portfolio investments and other forms of financial capital as well as, to a smaller extent, direct investments. Unfortunately this macro-economic imbalance is often faded out in the discussions about the dynamics regional high technology clusters. These high technology regions rely on a considerable capital import. They only prosper as long as the USA is able to geopolitically enforce this capital import. In contrast, China's share on world-wide exports rose from 1.8% to 7.3% between 1990 and 2005. Thus, probably already in 2008 China will be the world's largest exporter (see fig. 8, 9). The export share of the six so-called emerging trade countries in Southeast Asia (Hong Kong, Singapore, Taiwan, South Korea, Malaysia and Thailand) increased in only five years from 7.8% in 1990 to 10.3% in 1995, and since the "Asian crisis" in 1997 oscillates around scarcely 10% (WTO, 2003: Tab. III.1). Since the 1980s these countries and since the mid-1990s China have attracted gigantic direct investments. The production infrastructure erected herewith contributed to the strong growth of exports. On the other hand, the large export countries in Latin America such as Brazil, Mexico, Venezuela and Argentina were not able to substantially improve their position in the last years. This reflects the crises that these countries suffered in the last ten years. Direct investments predominantly flowed into the acquisition of domestic-oriented services. The growth poles in all emerging countries concentrate on few regions. The downside of this is that large geographical areas are neglected, emptied and marginalized. A majority of Africa as well as vast areas of Asia and Latin America primarily encounter interest as favorable raw material suppliers.

The picture of the triad disseminated since the mid-1980s (Ohmae, 1985) made room for a new hierarchical pattern of the world economy. China arises as a new powerful actor. Investment bankers created the picture of the ascending BRIC states (Brazil, Russia, India, China) (Goldman Sachs, 2003). They expect that already in 2040 the combined gross domestic product of the BRIC states would exceed that one the G6-states (USA, Japan, Germany; France, Great Britain, Italy). But these four countries exhibit so many differences in their economic structure and integration in the global division of labor that it makes no sense to categorize them together as a group. The trade of numerous peripheral and newly industrialized countries as well as their current investments and growth remain to a large extent shaped by their dept burden to the private financial system. At the same time, the considerable growth of direct investments in the three poles USA, Europe and East Asia expresses the pattern of international supply of intermediate products and the strongly increased importance of intra-firm exchange of goods.

This rise of China is the most important structural change in the global economy. Some fast growing regions became the world factory of industrial goods. The cheap imports of Chinese goods enabled the USA and the European countries to keep down inflation and reduce the reproduction costs of workers respectively the socially necessary labor what resulted in increased surplus labor in the capitalist core countries.

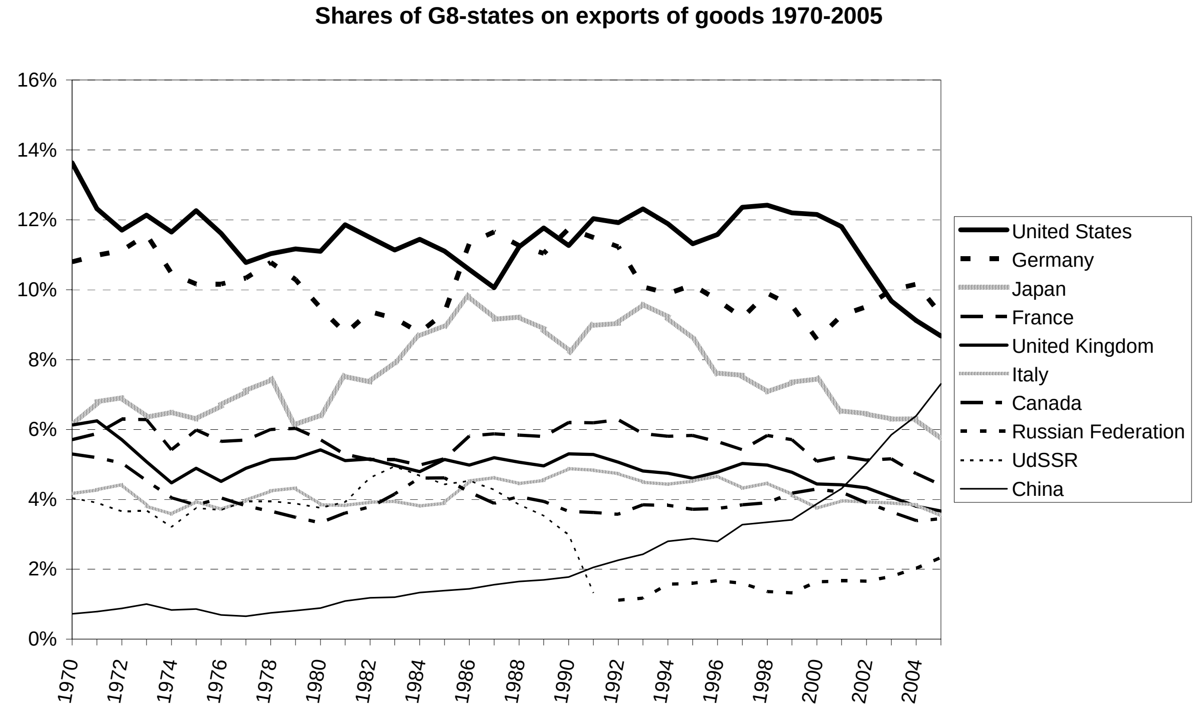

Fig. 8: Shares of G8-states on exports of goods 1970-2005
Souce: compiled based on (UNCTAD, 2006b)

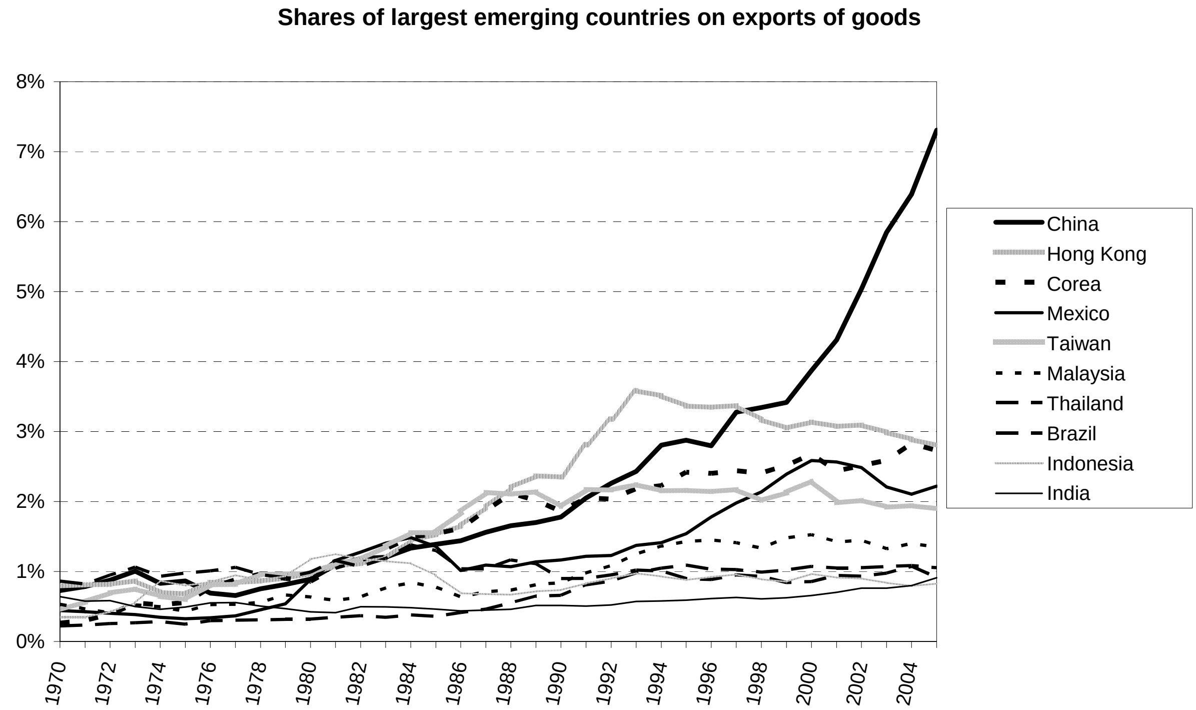

Abb. 9: Shares of emerging countries on exports of goods 1970 und 2005
Souce: compiled based on (UNCTAD, 2006b)

Emerging countries and peripheral countries as capital exporters

It corresponds to capitalist logic that creditors over the course of the time get more money back than they originally offered as credits. Since the early 1980s, financial flows resulting from the payment of debts and royalties for patents, as well as from the transferred profits of transnational corporations to metropolitan countries represent considerable dispossessions of resources and revenues from the manpower of dependent countries. These financial flows contributing to the enrichment of the ruling classes have bled many peripheral countries (Serfati, 2006: 88). Just as the indebtedness over credits since the early 1980s caused an outflow of capital from emerging and peripheral countries to metropolitan financial institutions, so current direct and portfolio investments today trigger a continuous transfer of capital to transnational corporations and to pension and investment funds. The consequences will be recognized but only temporally delayed.

The developing countries are already capital exporters to the rest of the world. Their aggregated surplus of current accounts has constantly risen since the year 2000 and amounted to 348.5 billion USD in 2006. Although the emerging countries have become targets of large direct and portfolio investments, these countries, primarily those in Asia, have become net financers of the capitalist core countries since 1998 (IMF, 2006b: 38ff; World Bank, 2005:56; 2006: 149; 2007: 37).

Emerging countries such as Brazil, Russia, India and China (the so-called BRIC states) as well as Malaysia and Venezuela show positive capital accounts (World Bank, 2005: 56; 2006: 149; Serfati, 2006: 82f). In 2005, the combined current accounts and recorded capital accounts of developing countries climbed to 710 billion USD, of which their governments channeled 392 billion into foreign exchange reserves. 318 billion USD were placed abroad by residents as portfolio holdings and direct investments or over other vehicles (World Bank, 2006: 151). In 2005, the foreign exchange reserves of developing countries swelled to 2,000 trillion USD. China alone held 38%, while Russia, India and China together held more than half of these reserves in 2004. In autumn 2006, China's currency reserves rose to approximately 1 trillion USD (Schoettli, 2007). A considerable part of these amounts flows to the metropolitan countries, particularly to the U.S.. The increase in the foreign exchange reserves also reflects decreasing domestic investments and consumer expenditures (World Bank, 2005:58; 2006: 151).

The accumulation of foreign exchange reserves implies considerable social costs, if the central banks finance the purchase of foreign currencies (above all USD, and to a smaller extent also the Euro and Yen), emitting domestic government bonds. Since the interest rates of reserve-grade assets are seldom as high as those on domestic capital markets, additional costs arise and more debt must be issued to cover the shortfall. High foreign exchange reserves thus increase the domestic debt (World Bank, 2006: 154). The accumulation of foreign exchange reserves has not been accompanied by a significant reduction of foreign debts. In some countries it even means an increase in their mountains of debt. The improvement of solvency through foreign exchange reserves facilitates the issue of new domestic securities and, thus raises the domestic debts. Higher domestic interest rates can even reinforce the need for more reserves, as higher interest rates could attract larger volumes of private inflows. A key problem, however, is that higher local interest rates can slow down domestic investment and growth. Likewise, the acquisition of debt titles in their own countries, at the financial markets of metropolises or in tax havens by oligarchic elites, as well as the fusion of political personnel and financial circles contributes strongly to this development. In Brazil for example, the portion of foreign debt on national income rose between 1997 and 2003 from 25% to 50%, and in Argentina from 45% to 136% (World Bank, 2005: 58, 73).

The ascent of concentrated placement capital is accompanied by the strengthening and expanding of property rights. The increasing importance of intellectual property monopolies in the form of patents and copyrights for corporate strategies underlines this development. Licensing revenues correspond to rents entitled to the property monopoly and guaranteed by the patent, independently, in fact, of the owner' role in the innovation and production process (Zeller, 2008). The royalty payments became an increasingly important channel of the world-wide transfer of resources to the industrial and financial corporations in the metropolises.

International trade with patents and patent licenses has escalated. While world-wide payments for patent licenses were estimated at 10 billion USD in 1990, they could possibly climb to a volume of up to 500 billion USD in 2010 (Deutsche Bank, 2007). In 1998, 86% of patent applications were concentrated in the metropolitan countries (UNDP, 2003: 207). Companies in the capitalist metropolises canalized 97% of royalty payments, corresponding to 71 billion USD annually in 2001 (Maskus, 2003: 17; UNDP, 2005: 135). Not surprisingly, payment of licensing fees flows primarily between rich countries. In 1995, more than half of all license fees were paid to firms and institutions in the U.S., most of them from Japan, Great Britain, France, Germany and the Netherlands (UNDP, 1999: 68). For emerging and peripheral countries, payment of patent royalties corresponds to a net transfer of funds to large metropolitan corporations. With the TRIPs agreement enforced by the World Trade Organization, technology producers, above all the U.S., strengthen their role as royalty receivers, and thus rent payments. The emerging and peripheral countries are pushed aside into the role of cheap-resource suppliers.

As result we can note that the emerging markets were able to attract large direct investments. Nevertheless, since 1998 they – above all the countries of Asia – have become net financers of the metropolitan countries. For more than two decades now, Latin America has already been sending more money to the metropolises than it receives (IMF, 2006b: 38f; World Bank, 2005: 56; 2006: 149; Serfati, 2004a: 34; 2006: 82f). Much evidence suggests that new financial mismatches will release a new debt crisis already within some years. The financiers and investors from the metropolitan countries and some emerging countries will claim revenues from their placements. The populations will have to pay for this steady value outflow with their manpower and raw materials.

Property owners in the metropolitan countries profit as rentiers from the yields on credits, portfolio investments, direct investments and royalty payments. But also in the emerging and peripheral countries, owners of property titles are those who can pocket interest income, which can be obtained due to the increase of domestic debts and foreign exchange reserves in their countries. Empirical analysis of investment behavior of nonfinancial corporations in Argentina, Mexico and Turkey reveal that the real sector channels savings to speculative placements instead of long-term investment projects. Thus, also nonfinancial companies can act as rentiers (Demir, 2007). Globalization provides numerous possibilities to the elites and national financial organizations of peripheral and emerging countries, and numerous possibilities for transferring values and resources from their countries to financial centers in metropolitan countries and offshore financial locales. Moreover, although difficult to quantify, the flight of capital rose to enormous extents in the last two decades (Serfati, 2006: 91).

Rents have become a key instrument for value capture and transfer in form of money capital on all geographical scales, from and between single firms up to the global financial flows. Thus, financial rentiers in the capitalist core countries as well in emerging countries in the sense of Robinson act on a global scale. They transfer and centralize financial income based on their property titles.

3. International production hierarchies and uneven development

The statistics of financial flows, direct investments and trade relations presented so far express flows between national states. They only partly mirror the economic interweaving. Therefore a look to the enterprise strategies is necessary. The transnational corporations pursue strategies in order to open markets and acquire resources, which can only be recognized with difficulty on the macro level, but directly affect economic interweaving and dependences. The spatially selective internationalization of capital tends to encompass all components of the value chain. The enterprises in various ways combine international investments, trade and international corporate collaborations, in order to expand and rationalize their operations (Dicken, 2003).

Four motives for internationalization can essentially be identified: access to resources and raw materials, rationalization of production by a more sophisticated division of labor including global procurement of intermediate products, penetration of markets as well as access to knowledge, abilities and technological capacities (Dunning, 1993: 56ff.). The latter is hardly relevant for investment activities in dependent peripheral countries. Investments for research and development usually concentrate on the richest countries in the world (UNIDO, 2002: 155; Zeller, 2001).

The motive of resources extraction is important since the beginning of colonial and imperialistic dominance. Direct investments serve the development of strategically important mineral resources such as oil and natural gas, agricultural raw materials and increasingly also water. After the direct investments in these sectors decreased in the course of the 1990s, they have strongly risen again in recent time. With transnational companies from the “South”, particularly from South Korea, India and China, new actors appear in this field (UNCTAD, 2002;2006c). The greediness for energy sources is subject of confrontations in the Middle East since a long time. The rivalries between capitalist core countries and the numerous wars in Africa are likewise connected with the hunt for raw materials and mineral resources (Serfati, 2004b). The strategic importance is big although the absolute numbers of direct investment in this field are still relatively small. The consumer standards of present capitalism and the waste of resources as well as new technologies reducing the costs of exploration, exploitation and transport of natural resources, make investments into this field again increasingly profitable (Chesnais, 2006: 46).

The shortage of natural resources by amplified consumption and destruction offers lucrative new fields for financial capital. Financial institutes offer specialized mutual funds that place their collected money capital in companies working in raw materials, water and other natural resources. Buying securities derived from such engagements financial investors acquire the right to obtain a share of the profit of these enterprises. The present rise of many prices of raw materials and the geopolitical strategies for securing sources of raw materials additionally underline the importance of this sector.

The second motive of production rationalization can be pursued with a variety of strategies. Disposing of cheap workers many peripheral countries offer themselves to transnational companies looking for attractive opportunities for production relocations. Thereby, transnational companies can often avoid direct investments. Erecting subcontracting relations and hierarchical networks they can outsource production, and concomitantly investment risk to local companies. The strategies combine a large range of transnational activities and interconnections such as exports, subcontracting, supply of raw materials and corporate alliances. New investment forms such as licensing or subcontracting are chosen, in order to organize production on new scales, without shifting much capital across the borders. Creating international *modular production networks* the leading enterprises concentrate on marketing of the final products while outsourcing manufacturing globally operating *turn-key suppliers*. Such modular production networks profit from external economies of scale (Sturgeon, 2002). Many transnational companies concentrate on value creation intensive core competences such as research and development as well as specialized manufacturing lines. They can determine the structure of the entire value chain even without having direct property of less value creation-intensive activities such as manufacturing of intermediates or mass production (Gereffi, et al., 2005). Enforcing such hierarchical production organizations and pyramids of suppliers the core firms systematically create dependence and power relations within the value chains. Such relations permit the core firm, to favorably attract values produced by other firms and organizations. The increased mobility of productive capital enables the large enterprises to systematically use wage conditions and local conditions, different from region to region, to put the wage earners and entire populations in different regions into direct competition to each other, making own investments or establishing subcontracting and supplier networks. Alone the threat of to relocate production often suffices to exert substantial pressure to the employees.

The third motive for direct investments aims at opening domestic markets in the target countries. A transnational corporation can combine this goal with the integration of parts of the value creation process into its international production organization. However transnational companies select only a few countries as industrial production locations for local markets. Exporting and selling through local sales branches has again become the preferential option of companies in many sectors. They usually produce only in those countries locally which dispose of a large domestic market. The pharmaceutical transnational corporation Novartis for example closed all pharmaceutical manufacturing plants in Latin America in the 1990s except those in the large markets Argentina, Brazil and Mexico (Zeller, 2001).

Particularly in Latin America direct investments were the instrument of far-reaching changes of capital ownership structures without creating new capacities. The appropriation of enterprises active in the field of basic supply of services by transnational companies was a central characteristic in the course of extensive privatizations in the two decades.

A particularly interesting target for direct investments is the basic supply of services (water, telecommunication, and electricity). More than in manufacturing, corporate strategies in services rely on corporate collaborations and controlling relationships without direct equity stake including franchising, management contracts, concessions and a variety of hierarchical collaborations with local companies (UNCTAD, 2004: 104). For pension and mutual funds looking for stable yields, shares of large companies operating privatized former public services offer attractive placements. People accustomed to the supply of gas, electricity, telephone and water, as is the in Argentina and other “emerging markets”, have become sources of safe yields for investors. The former public enterprises are even more attractive objects for financial placements, when the state previously had made tax funded investments into the infrastructure.

Thus, the numbers on direct investments are to be regarded carefully. For, there is obviously a correlation between the flows of direct investments of transnational corporations and the yields from privatizations (IMF, 2003). Direct investments for the acquisition of privatized firms rather correspond to an appropriation of formerly national enterprises than a capital flow for investing in the expansion of production. The goal of the repatriation of the profits seems to be achieved in most cases. Moreover, in accordance to a study quoted from the World Bank in 2002, the profitability of US-American subsidiaries in the south exceeds the profitability of their branches in the northern countries (Serfati, 2004a: 34).

The direct investments in China and India cannot be included in this typology. The political and social situation in China in the context of the capitalist transformation advanced by the party and state elites offers unique frame to the transnational corporations. India has protected itself more than other peripheral countries against the penetration of transnational corporations from the metropolis countries for a long time. On this basis, India offers a specialized industrial base and qualified work force, primarily in the information industry as well as in the pharmaceutical industry and biotechnology.

4. Conclusions: Financial flows for appropriation of resources and hierarchical fragmentation

The movements of direct investment, trade and other financial flows are expression of uneven development of capitalism. In this sense it is a constituent characteristic of capital to permanently produce and reproduce spatial inequality and uneven relations. The analyzed capital flows show how capital strives to spatially and temporally relocate surplus capital. In the context of a chronic over accumulation capital is again and again mobilized and spatially fixed. This process of the spatiotemporal mobilizations and fixes (spatio-temporal fixes) contributes to constantly shift the contradictions of the accumulation process temporally and/or spatially. The search for new fields for capital valorization through imperialistic expansion are expression of uneven capitalistic accumulation (Harvey, 1982: chapter 13, e.g. 442ff; 2003; 2004). New contradictions emerge, if the spaces opened through capital export themselves begin to produce surpluses of capital and thus export capital. China increasingly exports surplus capital in the form of goods, money and soon also productive capital entering into competition with the TNC's from the capitalist core countries. China's rise as a industrial power and the world's largest exporter is a qualitative change in the global economy of historical consequences. On the other hand, the financial centers in the USA and some European metropolises were able to hold or even to strengthen their dominant position in the financial area. Thus, the continuing financial and geopolitical dominance of the North Atlantic zone, above all the USA, which not least is based on the military predominance of the USA, faces the industrial ascent of China (Serfati, 2004a).

Uneven development prevails on all scales. The global localization strategies of transnational corporations are expression of a specific spatial international division of labor and configure this permanently in new ways. In the attractive metropolis regions as well as in Southeast China and in some federal states of Brazil the transnational investment strategies strengthen the economic position of those regions, which already dispose of good infrastructure and well qualified personnel. In other regions of the same countries and in numerous peripheral countries corporate strategies, in the same time, rely on simple procedures of dispossession. This becomes apparent when companies court for concessions for the exploitation of energy and mineral resources, purchase or even appropriate water; or when they enforce their control over basic services, without really investing, and hereby profit from monopolistic tariff settings. The capital export through credits, bonds, direct investments and portfolio investments thus not only serves the placement of "surplus" capital, but also the extraction of values and resources. Depending on the category of the placement, the yields flow though different channels and with smaller or larger time delay.

Numerous countries and regions are increasingly exposed to the investment requirements of one or another transnational corporation and try to present themselves as the most attractive location. The uneven development with few growth poles and wide marginalized areas goes along with enormous urban concentrations of people, who escaping their misery migrate to the cities or abroad. Capital increasingly puts workers in competition to each other on a global scale. They are forced to sell their workforce in direct competition to colleagues in another region of the world who looking for a job probably abandoned their home. The relocation of production activities either with direct investments or with collaboration agreements and third party manufacturing, is an important instrument of this forced confrontation. The establishment of manufacturing industries in Mexico and Central America (*maquiladoras*), North Africa, Eastern Europe, Southeast Asia, China, India and Vietnam as well as their periodic shift to even more favorable areas are expression of these strategies. In the long run these strategies serve to increase corporate profitability whereby an increasing part of the enterprise profits flows to the rentiers cashing in the yields from their financial placements.

The countries of the “South” do not form a homogeneous group and do not pursue common interests. The dualistic separation in industrialized and developing countries, diagnosed in former times, has been replaced by a new geography of the world economy. The economic activities and their command centers concentrate in the urban metropolises of the capitalistic core countries. On the other hand, the populations in disadvantaged regions in all continents face large troubles fighting against the effects of economic devastations. In the dominated countries this economics of archipelagos (Veltz, 1996) are characterized by an impoverished urbanization and a decomposition of grown economical structures. Capital subordinates all social classes and geographical areas to its logic; at the same time it segregates all and everything what it cannot integrate into its logic. The geography of the new imperialism (Harvey, 2004;2006) corresponds to cascades of nested hierarchies, interdependences and power relations. Despite the constitution of a world market and a global space of capital valorization numerous new spatial ditches and distortions emerge (Zeller, 2004).

This contribution underlines the requirement of renewing theories on uneven development. Harvey made important building stones which need to be tested empirically and developed further theoretically (Harvey, 2006). Globalization of capital makes it more than ever necessary, to seize the world economy not as addition of its national entities but as a totality which is shaped by the international division of labor, world market and financial flows. The economic development of firms and regions has to be understood in context of their entwinements with the global economy. I derive three interlinked fields of future theoretical and empirical research to which spatial political economy and economic geography can contribute. First, it has to be worked on how the regionally oriented investigations can be placed in context of developments on a macro-level and connected with an understanding of permanently reconfiguring uneven development. Second, an economic geography of natural and social resources should be established which improves our understanding of social resources like knowledge and natural resources increasingly subject to wars and neo-colonial ambitions. The demand for equal access and sustainability inevitable enters in conflict with the finance-driven logic of current capitalism. In course of capitalist globalization capital extended its possibilities of coordinating value and resource flows on global scale. This brings us to the third challenge. How can be better understood the space of flows of values and resources? How can the concept of *space of flows* (Castells, 1996) be empirically fortified especially with regard to value and resource flows? Approaches need to be developed to be grasp theoretically and empirically resources flows and value transfer between and within firms in different economic social contexts and the spatially and temporally extremely differentiated uneven development connected to these flows.

Literature

Andreff, W. (1996) *Les multinationales globales*, Paris: Éditions La Découverte.
BEA. (2007) 'International Data: US International Transactions', *Survey of Current Business*, 87 (10).
Brenner, R. (2002) *The Boom and the Bubble: The US in the World Economy*, London, New York: Verso.
Castells, M. (1996) *The Rise of the Network Society (The Information Age - Economy, Society and Culture; Volume 1)*, Cambridge, USA; Oxford, UK: Blackwell Publishers.
Chesnais, F. (1999). 'États rentiers dominants et contraction tendencielle - Formes contemporaires de l'impérialisme et de la crise', in G. Duménil and L. Dominique (eds.) *Le triangle infernal. Crise, mondialisation, financiarisation*. Paris: Syros, pp 95-120.
Chesnais, F. (2004a). 'Das finanzdominierte Akkumulationsregime: theoretische Begründung und Reichweite', in C. Zeller (ed.) *Die globale Enteignungsökonomie*. Münster: Verlag Westfälisches Dampfboot, pp 217-54.
Chesnais, F. (2004b). 'Le capital de placement: accumulation, internationalisation, effets économiques et politiques', in F. Chesnais (ed.) *La finance mondialisé*. Paris: Éditions La Découverte, pp 15-50.
Chesnais, F. (2006). 'Mondialisation du capital, nature et rôle de la finance et mécanismes de "balkanisation" des pays aux ressources convoitées', in C. Serfati (ed.) *Mondialisation et déséquilibres Nord-Sud*. Bruxelles: P.I.E. Peter Lang, pp 33-52.
Coriat, B. (2006). 'Moves towards finance-led capitalism: the French case', in B. Coriat; P. Petit and G. Schmeder (eds.) *The Hardship of Nations: Exploring the Paths of Modern Capitalism*. Cheltenham, UK: Edward Elgar Pub, pp 69-96.
Demir, F. (2007) 'The Rise of Rentier Capitalism and the Financialization of Real Sectors in Developing Countries', *Review of Radical Political Economics*, 39 (3): 351-59.
Deutsche Bank. 2007, Deutsche Bank: Investieren in Patente. Deutsche Bank: Frankfurt am Main.
Dicken, P. (2003) *Global Shift : reshaping the global economic map in the 21st century*. 4th Edition, New York, London: The Guilford Press.
Duménil, G. and Lévy, D. (2004a) 'The economics of US imperialism at the turn of the 21st century', *Review of International Political Economy*, 11 (4): 657 - 76.
Duménil, G. and Lévy, D. (2004b). 'Le néolibéralisme sous hégémonie états-unienne', in F. Chesnais (ed.) *La finance mondialisé*. Paris: Éditions La Découverte, pp 71-98.
Dunning, J. H. (1993) *Multinational Enterprises and the Global Economy*, Wokingham: Addison-Wesley.
DWS. (2007) DWS-Analyse der internationalen Fondsmärkte Jahr 2006: DWS Investments, Deutsche Bank Gruppe. *Webpage* 31. Mai 2007, 4. Juni 2007. http://www.dws.de/about/PressNewsDetail.aspx?id=106&NavId=1
Epstein, G. A. and Jayadev, A. (2005). 'Rise of Rentier Incomes in OECD Countries: Financialization, Central Bank Policy and Labor Solidarity', in G. A. Epstein (ed.) *Financialization and the World Economy*. Cheltenham, UK; Northhampton, MA, USA: Edwar Elgar, pp 46-74.
Gereffi, G.; Humphrey, J. and Sturgeon, T. (2005) 'The governance of global value chains', *Review of International Political Economy*, 12 (1): 78-104.
Goldman Sachs. (2003) Dreaming With BRICs: The Path to 2050. Goldman Sachs & Co.: Global Economics Paper No. 99. 24.
Harvey, D. (1982) *The Limits to Capital*, Oxford: Basil Blackwell.
Harvey, D. (2003) *The New Imperialism*, Oxford, UK: Oxford University Press.

Harvey, D. (2004). 'Die Geographie des "neuen" Imperialismus: Akkumulation durch Enteignung', in C. Zeller (ed.) *Die globale Enteignungsökonomie*. Münster: Verlag Westfälisches Dampfboot, pp 183-215.

Harvey, D. (2006) *Spaces of Global Capitalism: A Theory of Uneven Geographical Development*, London, New York: Verso.

Husson, M. (2004). 'Der Kapitalismus nach der "neuen Ökonomie"', in C. Zeller (ed.) *Die globale Enteignungsökonomie*. Münster: Verlag Westfälisches Dampfboot, pp 127-59.

IMF. (2003) *Global Financial Stability Report. Market Developments and Issues, September 2003*, Washington, DC: International Monetary Fund.

IMF. (2006a) *Global Financial Stability Report. Market Developments and Issues, April 2006*, Washington, DC: International Monetary Fund.

IMF. (2006b) *Global Financial Stability Report. Market Developments and Issues, September 2006*, Washington, DC: International Monetary Fund.

IMF. (2007) *Global Financial Stability Report. Financial Market Turbulence Causes, Consequences, and Policies, September 2007*, Washington, DC: International Monetary Fund.

Jeffers, E. (2004). 'La place de L'Europe dans la valorisation mondiale des capitaux de placement financier', in F. Chesnais (ed.) *La finance mondialisé*. Paris: Éditions La Découverte, pp 146-70.

Lovering, J. (2001) 'The Coming Regional Crisis (And How To Avoid It)', *Regional Studies*, 35 (4): 349-54.

Marx, K. (1863) *Theorien über den Mehrwert, Band 3*. 1993 (6. Auflage), Berlin: Dietz Verlag.

Marx, K. (1894) *Das Kapital, Dritter Band*. 1988, Berlin: Dietz Verlag.

Marx, K. (1981) *Capital. A Critique of Political Economy*, London: Penguin Books.

Maskus, K. E. (2003) Encouraging International Technology Transfer. UNCTAD/ICTSD Capacity Building Project on Intellectual Property Rights and Sustainable Development. 60.

McKinsey&Company. (2007) Mapping the Global Capital Market 2007. Third Annual Report. McKinsey Global Institute: San Francisco. 20.

OECD. (2003) Trends and recent developments in foreign direct investment. OECD: Paris. 20.

Power, D.; Epstein, G. and Abrena, M. (2003) Trend In The Rentier Income Share In OECD Countries, 1960-2000, *Working Paper Series*. Political Economy Research Institute, University of Massachusetts, Amherst. 77.

Robinson, J. (1956) *The accumulation of capital*. Third Edition 1971, London, Basingstoke: Macmillan.

Schoettli, U. (2007) Mythen um und Fakten zu Chinas Reserven. Eine Billion Dollar, die nicht nur Freude bereitet. *Neue Zürcher Zeitung*, 19. März, p. 14.

Serfati, C. (2004a) *Impérialisme et militarisme: actualité du vingt-et-unième siècle*, Lausanne: Éditions Page Deux.

Serfati, C. (2004b). 'Militarismus: der bewaffnete Arm der Globalisierung', in C. Zeller (ed.) *Die globale Enteignungsökonomie*. Münster: Verlag Westfälisches Dampfboot, pp 21-59.

Serfati, C. (2006). 'La mondialisation financière. Le triomphe des rentiers', in B. Jouve and Y. Roche (eds.) *Des flux et des territoires. Vers un monde sans États?* Quebec: Presse de L'Universitéde Quebec, pp 71-104.

Sturgeon, T., J. (2002) 'Modular Production Networks: A New American Model of Industrial Organization', *Industrial and Corporate Change*, 11 (3): 451-96.

Toussaint, E. (2000) *Profit oder Leben. Neoliberale Offensive und internationale Schuldenkrise*, Kön: Neuer ISP-Verlag.

U.S. Census Bureau. (2007) U.S. International Trade in Goods and Services, December 2006. U.S. Department of Commerce: Washington, D.C. 49.

UNCTAD. (2002) *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, New York and Geneva: United Nations Conference on Trade and Development.

UNCTAD. (2003) *World Investment Report 2003. FDI Policies for Development: National and International Perspectives*, New York and Geneva: United Nations Conference on Trade and Development.

UNCTAD. (2004) *World Investment Report 2004 - The Shift Towards Services*, New York and Geneva: United Nations Conference on Trade and Development.

UNCTAD. (2006a) Foreign Direct Investment database: United Nations Conference on Trade and Development. *Webpage*, 12. Februar 2007. http://stats.unctad.org/FDI/ReportFolders/ReportFolders.aspx

UNCTAD. (2006b) UNCTAD Handbook of Statistics, 2006: United Nations Conference on Trade and Development. *Webpage*. http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1

UNCTAD. (2006c) *World Investment Report 2006 - FDI from Developing and Transition Economies: Implications for Development*, New York and Geneva: United Nations Conference on Trade and Development.

UNDP. (1999) Human Development Report 1999. United Nations Development Programme, Oxford University Press: New York, Oxford. 168.

UNDP. (2003) Making Global Trade Work for People. United Nations Development Programme: New York. 352.

UNDP. (2005) Human Development Report 2005. International cooperation at a crossroads. Aid, trade and security in an unequal world. United Nations Development Programme: New York. 372.

UNIDO. (2002) *Industrial Development Report 2002/2003. Competing through Innovation and Learning*, Wien: United Nations Industrial Development Organization.

Veltz, P. (1996) *Mondialisation, Ville et Territoires. L'économie d'archipel*, Paris: Presses Universitaires de France.

World Bank. (2005) Global Development Finance. Mobilizing Finance and Managing Vulnerability. The International Bank for Reconstruction and Development / The World Bank: Washington, D.C. 171.

World Bank. (2006) Global Development Finance. The Development Potential of Surging Capital Flows. The International Bank for Reconstruction and Development / The World Bank: Washington, D.C. 205.

World Bank. (2007) Global Development Finance. The Globalization of Corporate Finance in Developing Countries. The International Bank for Reconstruction and Development / The World Bank: Washington, D.C. 144.

WTO. (2003) *International trade statistics 2003*, Geneva: World Trade Organization.

WTO. (2006) *International trade statistics 2006*, Geneva: World Trade Organization.

Zeller, C. (2001) *Globalisierungsstrategien - Der Weg von Novartis*, Berlin, New York: Springer-Verlag.

Zeller, C. (2004). 'Ungleiche Entwicklung, globale Enteignungsökonomie und Hierarchien des Imperialismus', in O. Gerlach; S. Kalmring; D. Kumitz and A. Nowak (eds.) *Peripherie und globalisierter Kapitalismus. Zur Kritik der Entwicklungstheorie*. Frankfurt am Main, pp 324-47.

Zeller, C. (2008) 'From the gene to the globe: Extracting rents based on intellectual property monopolies', *Review of International Political Economy*, 15 (1).