Are Large Companies at the Heart of a New Form of Transnational Hegemonic Order?

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'Today, large companies are at the heart of a new form of transnational hegemonic order'. Discuss.

The power exercised by the most powerful state is thought of as comprising two different elements, soft power and hard power (e.g. Nye, 2004). Hard power refers to the use of military might to force, coerce or otherwise encourage another state to bend to the will of the hegemon. Soft power is the use of economic, cultural or other social forces to achieve the same aim. Soft power hegemony utilises the consent of the other states. The hegemon shows that the universal goods of the system benefit others, providing, of course, they consent to the hegemon's rule. The realist conception of hegemony emphasizes state power above all others while a more liberal interpretation of international relations shows that other actors can exercise power, and the Marxist view is that there are class factions that can also behave hegemonically (Russell, 2005:45). The current global order has been called neo-liberalism, embedded liberalism or the Washington Consensus, amongst other names. The theory underpinning this order is economic liberalism which includes the process of reducing barriers to trade and the "opening up" of economies and markets that began under the advice of Adam Smith and David Ricardo in the 19th Century and continues today under the supervision of the World Trade Organisation (WTO). Economic liberalism has set the conditions for the spread of Transnational Companies (TNCs) which are suggested to be at the heart of a new form of hegemony. The reduction or removal of trade barriers has enabled the internationalisation of production by TNCs. Labour intensive, industrial production has been relocated to parts of the world where labour is cheap and regulations few, while the research and design, marketing and advertising departments (or value-added activities) remain in the developed world (O'Brien & Williams, 2007:199). By examining aspects of the globalisation of production and finance, this paper will take the view that while neither transnational production nor hegemony are new, the globalisation of production driven by economic liberalism has seen TNCs rise to the heart of an expanded form of global order distinct from the traditional idea of state power. This paper will also adopt the Neo-Marxist assumption that the current global economic system does in fact constitute a hegemony.

The path of economic neo-liberalism began after World War II finished. The nation to emerge most powerful from the war was the United States (US) and as such they were able, with help from Great Britain, to create the Bretton Woods economic system which lasted until the early 1970's. This period saw increases in Foreign Direct Investment (FDI) which, alongside the "opening up" of more countries and markets saw an expansion of hegemony from one of US state power to one based on the US created system. US firms moved some of their production processes overseas to exploit their enormous competitive advantage over local firms (Schwartz, 2010:219). Economic crises following the end of the Bretton Woods system and structural reform in the Third World enabled further FDI mainly from the US, and following the post-war recovery of Europe and Japan increasingly from these areas too (O'Brien & Williams, 2007:177). US power set the conditions for US companies to transnationalise, and now TNC power is one pillar on which the current form of hegemony is built (Cox, 1981:140). There are two clear and intertwined consequences here that led to changes in the global structure, the globalisation of production and the internationalisation of capital. Firms could now raise capital wherever it was cheapest for them to do so (Underhill, 2000:120) and new technology and global production led to the emergence of the global economy (Underhill, 2000:121). The introduction of increasingly mobile short-term capital ended the fixed-rate exchange system and weakened the ability of states to control macroeconomic policies (Underhill, 2000:121). Importantly for this discussion was that these two elements contributed to a move away from a Westphalian interpretation of the state. These structural changes led to a rise in power of non-state actors such as TNCs which contributed to a new triangular form of diplomacy as state-firm and firm-firm negotiations became as important as state-state (Underhill, 2000:122). This new form of governance does not represent a retreat from the state but a move to a new wider form of control encompassing states, firms, the WTO, the International Monetary Fund (IMF), the World Bank (WB), United Nations and other international institutions. and other actors such as hedge funds (Underhill, 2000:123).

Theories of transnational production fall into four categories, either Marxist or not, and pro-TNC or not. Firstly, Neoclassical economic theory is non-Marxist and pro-TNC (Jenkins, 2003:416). Neoclassicism states imperfect markets create the conditions for TNCs as in a perfect market firms would not need to expand to different countries (Jenkins, 2003:417). Other drivers for TNC expansion include trade barriers, financial regulation and tax rates in their home country. TNCs deliver benefits to the host country as well as their home nation. An important tenet is that without foreign direct investment (FDI) it is believed there would be little or no local production in many undeveloped countries. TNC-managed production provides employment for the host nation, and the skills and money earned filter through to the local population. Other gains for recipient nations are the transfer of technology, increased efficiency of goods and markets and other gains to the host nation from the efficiencies of the TNC (Jenkins, 2003:417). Supporters of Neoclassicism believe the gains are always available for the host nation, providing they follow "sensible" policies. Any problems experienced by the host country are not the fault of the TNC but of the restrictive or backward policies of the host nation. This paper argues that technology and expertise is indeed transferred but market domination by the TNC makes it difficult for any local entrepreneurs to build their own businesses. This restricts the growth of a middle-class (or *bourgeoisie*) of business owners making it difficult for the host nation to develop. This contributes further to a global hegemonic system of which TNCs are a fundamental component. This kind of TNC activity ensures that the distribution of power in the global order will remain the same. This is one of the main tenets of (non-Marxist, anti-TNC) Global Reach theory where TNCs create a state of limited competition in which they exist and thrive, creating a barrier to local production, capital, labour and entrepreneurship, which has the effect of preventing normal development (Jenkins, 2003:419). Instead of being created by imperfect markets they actually create imperfections because of their oligopolistic strategies. Global Reach highlights examples of abuse of the economic system, such as price fixing (e.g Samsung et al in Reuters, 17/05/10), taste transfer, transfer pricing and the creation of oligopolies in the third world (Jenkins, 2003:420). Other countries can negotiate for fairer deals but this is not always feasible for less powerful countries. The Marxist and anti-TNC theory of Neoimperialism has a similar outlook. TNCs are monopolistic and block development in the third world and drain capital away from the host country. Instead of blocking the creation of a middle class in the host nation, FDI creates a "comprador" class, who exploit their own countrymen by serving the interests of themselves and the TNC which contributes to the inhibition of host-nation development. The comprador class and the home nations of the TNCs effectively work together to resist any attempt to change the system. The fourth major theory of transnational production is Neofundamentalism which by being Marxist and pro-TNC believes imperialism and capitalism will eventually create the conditions for socialism. However the existence of a transnational capitalist class trained, educated and working for TNCs, often outside of state control make this socialist revolution harder to achieve. Moreover this kind of relationship can be very profitable for TNCs and the local "comprador" class. Attempts at change would meet resistance from within and without. The educated, rich and powerful try to extend the system by educating and employing more people to ensure their outlook pervades, making their lifestyle more secure and system change more unlikely. If the employees are allowed to earn enough to live a secure and content life, they are less likely to agitate for change.

This paper finds more favour with a Global Reach/Neo-Imperialist viewpoint of transnational production. However, the hegemon depends on a healthy and stable global economic system and as such the development of other nations is encouraged in order that they become consumers and producers of goods. TNCs can play an important role in developing countries as technology and knowledge transfer and the provision of employment raise living standards and increase the purchasing power of people previously unable to contribute to the capitalist system. Hegemony and capitalism thrive on the participation of as many as possible and TNCs generate new workers and new consumers around the world, thereby providing for the continuation of the hegemonic order. The living standards of millions have been improved through this kind of capitalism which, despite its inherent flaws and inequities, has the potential for good.

TNCs now make up a "major part of the global production structure" and represent approximately 50% of world trade (O'Brien & Williams, 2007:174). Indeed in 2004 estimations of global trade flows of FDI were $648 billion (O'Brien & Williams, 2007:174). TNCs are by no means a new phenomena, for example the British and Dutch East India companies that operated in Asia during the 17th and 18th centuries (Schwartz, 2010:221). However an important change has been a shift in how foreign investment is administered. Previously, portfolio investment (where the foreign company relinquishes control to the local recipient of the investment) was most common, however since WWII direct foreign investment (where the foreign company retains control over the transferred resources) has become commonplace (O'Brien & Williams, 2007:176/7).

The conclusion that TNCs now form a part of hegemony comes from a Neo-Gramscian analysis developed by Robert Cox. He broadens hegemony from purely state-based to one that is "an expression of broadly based consent, manifested in the acceptance of ideas and supported by material resources and institutions…then projected outwards on a world scale" (Bieler & Morton, 2004:87). This consent is created by the propagation of liberal economics, and the path to development prescribed by the IMF, WB and WTO. The focus on FDI by these groups has facilitated the worldwide diffusion of TNCs and has resulted in what has been called a transnational state (Robinson quoted in Stokes, 2005:226). Hegemony is a form of dominance but it is necessary to show the benefits of submitting to this dominance. It is possible to develop under hegemonic rule through liberal economic methods and there is some evidence to show that a greater exposure to world markets speeds up development (O'Brien & Williams, 2007:198). However not every state benefits equally, instead who governs the value chains "determines who reaps the gains of globalization" (Thun, 2008:357). For the universal goods of the liberal system to be accepted by other nations some form of coercion is normally required, this is where state support for the system is necessary. Whether it be by military threat or economic sanctions, states outside the system are encouraged to accept these liberal prescriptions. The role of the state in creating the necessary conditions for the expansion of TNCs is vital. The relationship between politics and economics shows that without state involvement the spread of TNCs would not have been so easy or prevalent. TNCs require actual territory in order to produce anything and states have territory (O'Brien & Williams, 2007:200/1). Political decisions taken by states created the conditions for the globalisation of production, primarily the prevalence of neo-liberal economic policies spreading from the industrialised to the developing world (O'Brien & Williams, 2007:201 & Thun, 2008:350). The increased power of TNCs has had significant effects particularly within developing countries (O'Brien & Williams, 2007:203). The loss of autonomy and the resulting changes to sovereignty come from the increased ability of TNCs to exercise power above the reach of state control (O'Brien & Williams, 2007:202 & 203). Many of the perceived benefits of FDI apply mainly within the already industrialised world as the majority of cutting edge technologies remain there (O'Brien & Williams, 2007:199) and as such it requires careful planning by the host nation to ensure they receive benefits from TNC investment (O'Brien & Williams, 2007:200). A key contributor to this new form of hegemony is the undemocratic nature of TNC power. Actions and decisions affecting many people across national borders are made by unelected groups at the head of the firms. Moreover there is no "opt-out" from the system meaning the weak have to join, and the powerful best placed to benefit (Underhill, 2000:125). Technology transfer does indeed occur but it is claimed by critics of TNCs that too few or the wrong kind of assets are transferred (O'Brien & Williams, 2007:182). Commonly low-grade production technology is transferred to the developing world (O'Brien & Williams, 2007:197/8) which results in underdevelopment or retardation of growth by TNC involvement. The underdevelopment of the Third World contributes to global economic hegemony and TNCs are actively involved in creating and maintaining this hegemonic order. The power of TNCs and the ability to act free from regulation increased to the point of near systemic collapse during the 2008 financial crisis.

The increased freedom from state control and the internationalisation of production have contributed to another important aspect of TNCs, that of a transnational capitalist class (TCC) at the head of this aspect of hegemony (Cox,1981:147). States provide the necessary infrastructure, such as domestic economic stability and social order and neo-liberal foreign policies (Stokes, 2005:226) necessary for overseas expansion. Internationalisation of capital by TNCs then creates the conditions for a TCC. The TCC is representative of a view of hegemony that moves away from that purely of a state to that of a separate class that exercises dominance over others across state boundaries as representatives of a firm and not a state. TNCs, financial institutions (Russell, 2005:45), multilateral agencies and government departments are part of this hegemony. The TCC make up the leaders of these kinds of organisations (Sklair, 2001:36) and are "tied to globalised circuits of production, marketing, and finances unbound from particular national territories and identities" (Robinson, 2004:47). Susan Strange points out that a bigger problem may be that instead of the international financial system being controlled by a TCC, what is actually happening is that there is less control as the state forms of regulation are removed before the development of any effective international regulation (Strange, 1998:140). As Robinson acknowledges not all capitalists are part of this system and there is no single TCC (Robinson, 2004:47) however this distinct phenomena is an important part as it represents a change in how people think of themselves, their jobs and the national interest of their country. As Sklair notes, an opinion among Fortune 500 managers was that they did not think of themselves as working for an American or French company, they were instead representatives of a multinational company (Sklair, 2001:50). This blurring of national identities is another example of how TNCs are affecting the traditional view of hegemony, representing a Marxist definition of a move away from state interests towards a class interest. TNCs require the same kind of employees, with similar skill sets and beliefs to work in many different countries. This forms the basis of an ideology based on a commitment to liberal economic values, which is then spread through such methods as MBA training and the popular media.

The internationalisation of finance, enabled by the spread of neo-liberal policies has seen states open their economies to foreign capital. There are many examples of state policy that only serve the interests of "social, political or economic elites" often with accompanying high costs to society (Underhill, 2000:128). This often results in taking control over fiscal and monetary policy away from national governments and giving it to foreign exchange and capital markets (Haggard & Maxfield, 1996:210). Lending practices by the IMF and WB have also played a large part in developing this hegemonic system. High levels of debt in the Third World, in part created by borrowing when money was cheap and then having to pay back in times of hardship have seen more countries adopt the structural reform programs of the IMF, which includes privatisation of national industries and opening previously closed economies to FDI. TNCs have become very good at taking advantage of these kinds of situations, for example Citibank, which is said to have made "almost as much in assets from poor countries as it has loaned to them" (George, 1988:20). Large companies that are part of the international hegemony make use of the global economic system to further their own interests and this helps to further maintain the hegemonic order.

There is a clear concentration in source and recipients of FDI. Since the 1950's TNCs have most commonly been based in the USA and Europe. 70% of all FDI in 2007 was between OECD countries, and China and Hong Kong received almost a third of FDI that went to developing countries (Schwartz, 2010:220). In 1996 153 of the worlds 500 biggest companies where based in the US (Sklair, 2001:37), in 2003 it was 192 (Stokes, 2005:228) and in 2009 it was 140 (Fortune 500, 20/07/2009) showing a slight decline in recent years but nevertheless a huge overall lead that has been maintained since the end of World War II. At the end of the twentieth century approximately half of the trade of developing countries took place within firms (Schwartz, 2010:220). One of the reasons given for this US dominance is that the US state acts as the "global policeman" and has been actively and consistently creating the conditions for a global capitalist system. As one observer puts it, "the US state is now acting at the behest of the TCC and the structural power of transnational capital" (Robinson quoted in Stokes, 2005:228). A key part of hegemonic stability theory is that the hegemon will promote the system that it is best placed to benefit from. In this case it is in the interest of the US state to promote liberal trade policies as US companies stand to gain the most (Stokes, 2005:228). Looked at from a Neo-Gramscian perspective, the TCC that are at the heart of government and TNCs are able to use the power of the US state to create stable worldwide conditions that they are best placed to gain from. One key factor in this is the willingness of TNCs to often seemingly act against domestic interests. An important part of the internationalisation of production is that heavy industry has moved from the developed countries to different areas of the world, particularly East Asia. This has caused significant job losses in the developed countries leading to social unrest and strain on the welfare state. Although recently China has somewhat returned the favour and is building some factories in the US, thereby creating jobs for American workers (Prasso, 7/05/10).

The traditional conception of politics & economics, or states and markets, is that they are separate. The study of IPE has shown this to be inaccurate, in fact they are "fundamentally conjoined" (Stokes, 2005:226). These two formerly separate incarnations of power form part of a different interpretation of hegemony, one that created the conditions for the rise of TNCs. The propagation of liberal economic policies by states, particularly the US, paved the way for the globalisation of finance and production which enabled TNCs to share power with states and other actors. Conversely, now US power relies somewhat on the strength of "its" TNCs. States are now not the only important actors domestically or internationally (Underhill,2000:124) however the end of the state is not going to happen anytime soon. Witness current calls for the dismantling or transformation of the Eurozone as a reaction to the kind of ineffective supranational authority that many believe is responsible for the seemingly unending stream of financial crises (Balibar, 25/05/10 & Feldstein, 25/05/10). There are already significant anti-TNC and anti-capitalist movements spurred by a revulsion to the unethical and unsustainable activities of many large companies in their pursuit of profit (e.g. Cohen, 30/05/10, Jensen, 15/07/09 & Lasn, 15/07/09). This expansion of hegemony to its current undemocratic state is a direct result of state policies, representing a change in the global structure. In short, TNCs now form one part of an institutionalised hegemony.

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