Shaping the Transnational Capitalist Class: TNCs and the Global Economy

https://www.e-ir.info/2019/10/06/shaping-the-transnational-capitalist-class-tncs-and-the-global-economy/

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In this essay I will analyse to what extent has production become transnational and what have been the implications of this; in particular, the focus will be on the negative effects that it has caused. The first part of this essay will analyse data regarding Foreign Direct Investment (FDI), since it will help to better understand to what extent has production become transnational. In addition, it will also be shown how flows of FDIs and openness to Transnational Corporations (TNCs) do not always translate in a positive development for host countries. In the second part of this essay, I will highlight the uneven effects that Global Production Networks (GPN) are having in affecting host countries. After introducing this concept, it will be shown examples of the negative impact they had on developing economies. In particular, this essay will concentrate on highlighting the uneven effect that GPNs have caused on the labour force in Brazil and on the electronic industrial upgrading situation of Malaysia. In conclusion, this essay will demonstrate how the uneven development that the trans-nationalisation of production created has benefited and has led to a structural change of the society, through the creation of a Transnational Corporate Class (TCC) and of a 'labour aristocracy' in the host countries.

Foreign Direct Investments

FDIs have been central to globalising markets and play a crucial role in the process of transnational production. These factors represent the most important mechanism in global integration as they create long-term and immediate effects not only in each country involved in the process but also in the nature of the relationship between them (Robinson, 2004). Foreign Direct Investment (FDI) refers to the investment of capital, technologies, management skills and entrepreneurship that a national based firm makes outside of the home country in one or more other countries (O'Brien, 2016, pg. 127). As Robinson (2004) points out, to really understand the importance that FDI has in trans-nationalising production it is necessary to compare it to the rate of world production and fixed capital formation. Indeed, if these factors grew at the same rate, then the increase of FDI would not represent an element of major trans-nationalisation. However, in accordance to the data presented by the World Investment Report (UNCTAD, 2001), it can be noticed how FDI had tripled the world production and had become several hundred times higher in the second half of the decade, outlining the fact that most of the world production is transnational rather than national (Robinson, 2004, pg. 24). In addition, also the world trade flow is of fundamental importance to understand the extent to which production is trans-nationalised. As outlined by the data showed in the World Economic Situation Prospect (UNCTAD, 2001), the world trade flow has outpaced the world output, meaning that most of what was produced was consumed globally rather than nationally. Furthermore, the fact that a great amount of the trade happened as intra-firms trade clearly shows ''the commercial expression of globalised production'' (Harris and Robinson, 2000, pg. 37).

FDIs also represent a significant element to understand to what extent the developing countries are being integrated into the global economy. Although a great amount of flows and stocks of FDI is still concentrated in the OECD countries, the situation is changing. While in previous years the distribution of FDI was still uneven, recent data shows how the inward share of FDI flow by developing countries has shifted from a 17.5% in 1990 to a 43% in 2008 (McGrew, 2014, pg. 235). Despite the combination of FDI flow and the openness to the establishment of TNCs have generally brought to the industrialization of the host countries (McGrew, 2014, pg. 235), this might not be translated in a positive contribution to the economic development of such countries. As Vissak and Roolaht (2005) pointed out, an imbalanced inflow of FDI could be crucial in destabilising the host country's economic asset. In particular, the withdrawal of FDIs inflow from a specific sector could cause major negative implication. In the Estonian case, as Vissak and Roolaht (2005) argue, the withdrawal of cost-oriented investments in the labour intensive industry will be one of the main country's problems in the upcoming years, since foreign investors look for low wage levels as the labour cost grows. Furthermore, TNCs based in host countries tend to concentrate the high value-added activities and technologies in the home countries, thus limiting the opportunity for the host countries' industries to develop an high quality level of manufacture and exploiting them as ''offshore satellites for the main activities in home countries'' (O'Brien, 2016, pg. 141). An example of this are the Mexican maquiladoras, where the inputs created are usually low-quality technology products that marginally improve the local technological skills and of which less than 5% comes from within Mexico (Dicken, 2015, pg. 261).

Global Production Networks

TNCs account for 80% of the $20 trillion in trade each year (UNCTAD, 2013) and shape the global economic asset through their decisions to invest or not in specific countries. As Arrighi (1973) argues, the implications that these large-scale corporations have on the developing economies ''are, on, balance, negative'' (Arrighi, 1973, pg. 105). In addition, TNCs are not only actors in the global economy, but also control the various process and transactions within the Global Production Networks (GPNs), namely ''the arrangements of firms, institutions, and workers producing goods and services across multiple locations'' (Werner, 2016, pg. 457). GPNs are organisational networks that integrate firms and national and local economies and that drive the globalization of production, which ''entails an international division of labour that reflects and reproduces class, gender, and ethnic inequalities'' (Levy, 2008, pg. 945). The reason why GPNs are important to understand the negative implications that the trans-nationalisation of production has caused is that, during each stage of the production process, an amount of value is created. This value, generated by the combination of ''labour skills, process and product technology and organisational expertise'' (Dicken, 2015, pg. 254), through increased profits and reduced competition, is enhanced and consequently captured and absorbed. However, this enhanced value and its benefits, instead of being captured by the manufacturing company or workers, are absorbed instead by the primary firm, who keeps most of its software development, product management and other high-wage functions within the home country (Dicken, 2015). In what follows, I present two short examples of how these processes occur in practice, drawing on cases in Brazil and Malaysia.

The migrant sugar cane workers in the Brazilian ethanol GPN (McGrath, 2013) represent an example that clearly shows how the value-capture process in GPNs can negatively influence not only the host economies, but mainly the labour force involved. As shown by McGrath (2013), through the process of intensification, gendering and racialisation the labour is de-valuated and the value created by this de-valuation is captured by the buyers. In particular, workers are subjected to an intensification of the work through the piece rate system. This system, in addition to creating degenerate conditions and to intensify the work, foresees ''an initial trial period, unpaid suspension for failing to meet ongoing quotas, a lack of transparency with respect to the amount cut and the consequent wage calculation, and reference to previous production levels in annual re-hiring decisions'' (McGrath, 2013, pg. 38). Moreover, the death average in the cutting cane process is highly related to the piece rate system aforementioned, showing to what extent the labour force condition is deteriorated and aggravated. Similarly, the devaluation of the workers is additionally stressed by the fact that most of the labour force in the Brazilian sugar cane is mainly composed of migrant men workers, accentuating the gendering and racialisation process. In fact, as pointed out by McGrath (2013), ''the notion that male migrant workers are particularly suitable for the hard work of cane cutting and for lower housing standards exemplifies the social construction of migrants as 'others'" (McGrath, 2013, pg. 39), contributing to the stigmatisation and the 'stereotypization' of the race.

To further understand the negative impact that GPNs can cause on developing economies, the case study on the Malaysian electronics (Henderson and Phillips, 2009) can be taken into consideration. As presented by Henderson and Phillips (2009), not always GPNs have a positive impact on the industrial upgrading of the host country, since they can ''generate lock-in effects that can trap domestic firms within established – and increasingly counterproductive – modes of operation from which they cannot easily be released'' (Henderson and Phillips, 2009, pg. 56). As highlighted in the Malaysian example, the country suffered from a lack of technology students, scientists and engineers, interpreted as a ‘skill gap’ that needed to be filled by foreigner professionals. However, although the country was part of a GPN for more than 35 years, there was not enough improvement in its firms’ industrial situation within the value chain to request high-skilled workers. This because ‘’the supposed ‘skills gap’ was a reflection of the true nature of demand for human capabilities by electronics companies; demand that, in turn, is a function of various efforts (conscious or otherwise) to maintain Malaysia’s longstanding position as a low-cost, labour-intensive base for GPN activities’’ (Henderson and Phillips, 2009, pg. 43).

The previous discussion on how the trans-nationalisation of production, particularly through GPNs, has caused major negative effects on host countries’ economies, can be further developed explaining how it has led to a structural change of the society itself, through the creation of a Transnational Capitalist Class (TCC). As argued by Levy (2008), GPNs provide the possibility to further understand how this new TCC exercise its hegemonic power. Indeed, the transnational managerial class ‘’maintains the system that enables it to remain dominant’’ (Cox, 1987, pg. 359) through the continuing development of ‘’economic structures, neoliberal and consumerist ideologies, and political institutions’’ (Levy, 2008, pg. 953). Thanks to the role that TNCs played as ‘’integrating agents’’ (Robinson, 2004, pg. 55), the globalisation of production has played a fundamental role that led to the shift from nation-state phase to a transnational phase of capitalism. Indeed, if in the first stage, countries were connected by commodities and financial flow through an international market, in the modern stage, the linkage between countries is now represented by an internal market created from the trans-nationalisation of production that works through the supra-nationalisation of national productive structures (Harris and Robinson, 2000). Furthermore, according to Sklair (2001), the globalising process that TNCs have been subject to acted as the driving force for the making of the TCC. Trough flows of FDIs, intra-firm trade, national sub-contractors, as well as through a further number of economic indicators, TNCs ‘’provided the basis for the existence and power’’ (Sklair, 2001, pg. 34) of this new global class. In turn, TCC played a fundamental role in ‘’the reorganization of manufacturing into transnational value chains, and the expropriation of value through global financialization’’ (Harris, 2014, pg. 4).

Part of the process of transnational class formation is also the labour force. Indeed, as the production chains expand transnationally, more workers from different part of the globe are integrated into the global production process and in the same circuit of accumulation, giving rise to an ‘’emerging global proletariat’’ (Robinson, 2004, pg. 43). In particular, as Robert Cox (1987) points out, the development of an industrial proletariat in the Third World countries took place as well. However, it did not acquire ‘’organizational capacity and ideological maturity’’ (Cox, 1987, pg. 390) to become a class-for-it-self and develop a necessary self-conscious awareness. Furthermore, the trans-nationalisation of production did not only give rise to a global proletariat but also, as Arrighi (1973) argues, to a labour aristocracy. Indeed, as TNCs expatriated in Third World countries, in particular in the tropical African countries, they started a process of ‘’Africanization’’ (Arrighi, 1973, pg. 119), through the employment of African people from a privileged minority in the managerial and bureaucratic occupations. In this way, a further distinction and division of labour took place: the formation of an African elite, whose aim is preserving the status quo that is ‘’politically and ideologically divided from the mass of the working class’’ (Jenkins, 1987, pg. 125).

In conclusion, based on the evidence that this essay has shown, it can be argued that the trans-nationalisation of production has caused negative implications in the host countries for a number of reasons. Firstly, although the flow of FDIs started to include more developing countries in the global economic sphere and had generally led to the industrialisation of such countries, it also presented negative features. In fact, as shown by the Mexican’s maquiladoras and the Estonian example, flows of FDIs do not translate automatically in positive development. Secondly, as TNCs trans-nationalized, they gave rise to Global Production Networks, that comprehends firms, institutions, and workers producing goods across the globe. These networks, through their value-capture process, have led to the devaluation of the labour force in Brazil as well as to the counterproductive upgrading of the technology industry in Malaysia. Finally, these GPNs, through the uneven development that the trans-nationalisation of production has caused, gave rise to the Transnational Capitalist Class (TCC) and to a labour aristocracy in the Third World countries, especially in tropical Africa. In particular, thanks to the GPNs and the transnational production, the TCC and the labour aristocracy have the possibility to continue to exercise their hegemony over an emerging global proletariat, that is still not enough self-conscious to form a class for itself and to counterpart their power.

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Date written: March 2019