PART III

TRANSNATIONAL CORPORATIONS

7 The role of transnational corporations in the globalisation process

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1. Introduction

Globalisation is a complex phenomenon which is more in the nature of a process than a state of affairs. There have been several attempts at definition (McGrew, 1992; Oman, 1996; Castells, 1996; Giddens, 1999; Held et al. 1999). Most definitions boil down to the fact that globalisation is both a process of geographical/spatial outreach and of an increased degree of interconnectedness and interdependence between people, groups and institutions based in different countries of the world.

As a process of spatial outreach it is not new and has long historical antecedents (Held et al., 1999). Nonetheless it is argued in this chapter that the current process is considerably different from any previous process of outreach. One of the major differences is seen in the role that transnational corporations (TNCs) play in the globalisation process.

The chapter proceeds in section 2 with an analysis of the salient characteristics of the globalisation process. The third section considers the role of TNCs in cross-border transactions. Section 4 develops the argument that the TNCs are a dominant cause of the globalisation process. Section 5 considers the wider policy implications of this perspective and the last section concludes.

2. Salient characteristics of globalisation

The current globalisation process is characterised by both qualitative and quantitative aspects and it differs from previous outreach processes in many of these aspects. The process is cumulative and thus the various aspects and mechanisms reinforce each other.

Among the qualitative aspects of globalisation the following play an important part:

1. **Breadth of change.** The changes now involve a variety of fields or ‘domains’ (Held et al., 1999) ranging from the economy and society in general, to population movements, to the business sector, to politics, to the military, the environment and culture.

2. **Political basis.** The process has been reinforced by the economic and social policies of deregulation and liberalisation now involving most countries in both the developed and developing regions.

3. **Financial domination of the economy.** The dominance of finance capital is not new in capitalism. However, the last 20 years have seen such dominance reaching unprecedented levels both in terms of intensity of financial activities in relation to the size of economies, and in terms of number of countries involved in financial transactions. On this issue Palma (2009) writes: ‘...the four components of the stock of global financial assets (equity, public and private bonds and bank deposits) increased 9-fold in real-terms between
1980 and 2007… As a result, the multiple of the stock of financial assets to world output jumped from 1.2 to 4.4…”.

**Social and organisational changes.** The organisation of production and business in general has undergone considerable changes made possible and indeed necessary by the new technologies.

**Transnational corporations.** The major changes are related to the organisation of production across countries due to the activities of TNCs, on which more in the rest of this chapter.

**Technological basis of globalisation.** None of the above changes would have been possible on the scale in which we are witnessing them without the introduction and rapid spread of the information and communication technologies (ICTs). The ICTs affect every aspect of the globalisation process from the movement of people, products and resources, to the organisation of production. Considerable improvements have also occurred in the technology and costs of transportation.

As regards the **quantitative aspects** of the globalisation process, the following issues are relevant.

- There has been an increase in the **number of mechanisms** of interconnectedness across borders: from the traditional trade flows to foreign investment (direct and portfolio) and related incomes, to various types of collaborative business ventures.
- The **extensity** or geographical/spatial reach of interconnectedness has been increasing. Here, ‘extensity’ means the geographical scope and therefore the number of countries involved in cross-border operations within and between regions.
- The **intensity** of cross-border flows has also been increasing. By intensity I mean the ratio between cross-border transactions and the size of the domestic economy(ies). The latter can be represented by a variety of economic and social variables such as gross domestic product or domestic capital formation or population or labour force.

### 3. Cross-border transactions and the TNCs

The interconnectedness across countries manifests in a variety of transactions and flows; particularly in the following:

- International trade in goods and services
- Foreign direct investment
- Portfolio investment
- Profits, interests and dividends from the various types of foreign investment
- Inter-organisational collaborative partnerships
- Movements of people across borders for leisure or business activities or in search of jobs.

The institutions that participate and that are key to all the above activities are the TNCs, that is those companies with *direct business activities* in at least two countries. These direct business activities involve the ownership of productive assets abroad in a percentage large enough to give control over the conduct of the business.\(^3\)

The cross-border transactions which are most specific to – and indeed defining of – the TNC are foreign direct investment (FDI). From the 1970s onward there has been a steady and large increase in FDI, most of which originates in developed countries and is indeed directed to the same group of countries. In 2008, 84 per cent of the world stock of FDI originated from developed countries. The same group of countries received 68.5 per cent of the world stock (UNCTAD, 2009).

However, as well as being responsible for all or most FDI, the TNCs participate in all other cross-border business activities listed above. Over three-quarters of world trade originates with TNCs and indeed over a third of it is estimated to take place on an *intra-firm* basis (UNCTAD, 1996).\(^4\)

Transnational corporations – including banks and other financial institutions – are responsible for large amounts of portfolio investment and cross-border loans. The incomes deriving from foreign investment – whether direct or portfolio or loans – will accrue to the institutions involved in such investment and therefore, largely, to the TNCs.
Most collaborative agreements are between firms, though there are many instances of collaboration between public and private institutions (Hladik, 1985; Contractor and Lorange, 1988; Hergert and Morris, 1988; Hagedoorn, 1996 and 2002).

The movement of people across frontiers may have the direct involvement of TNCs to a lesser extent than other cross-border movements. However, an increasing part of migration – that related to expatriate managers – is largely linked to activities of TNCs (Salt and Singleton, 1995; Salt, 1997).

In 2008 there were, worldwide, 82053 TNCs operating with a network of 807362 foreign affiliates (UNCTAD, 2009). Dunning (1981: ch.1, p. 3) reports nearly 11 000 TNCs and 82 600 foreign affiliates in 1976. The huge growth between the mid-1970s and 2008 is the result of the following: a larger number of companies from developed countries operating abroad; the increasing involvement in foreign operations by both large and smaller companies; the transnationalisation of several state-owned companies; and the transnationalization of many companies from developing countries and particularly from China.

4. TNCs as a dominant cause of globalisation

The analysis of globalisation in terms of causes, effects and policy implications has led Held et al. (1999) to summarise the positions into three approaches or theses. The hyperglobalist thesis – which has Kenichi Ohmae (1991; 1995a and b) as main exponent – sees the TNCs as the key agents of globalisation and the sources of efficiency and growth. The globalisation process itself is to be encouraged and any constraints to it removed. Traditional nation states with over-regulation and uneven regional development are among the obstacles to globalisation. Ohmae therefore advocates the demise of the nation state and the rise of smaller, more developmentally homogeneous region states.

An opposite point of view – the sceptic thesis – is taken by Carnoy et al. (1993), Hirst and Thompson (1996) and Kozul-Wright and Rowthorn (1998). These authors claim that the globalisation process has been exaggerated and that, in reality, most international activities by TNCs have a very strong home-country base. The nation state and its policies are seen as relevant as ever.

Held et al. (1999) see globalisation as a process of global transformations similar to other historical processes of global reach but far more advanced in geographical extensity and intensity.

Chesnais (1997) sees finance as the main basis of the globalisation process. In his view the deregulation and liberalisation policies of the 1980s have set in motion forces leading to a new regime of capitalist accumulation dominated by finance. He advocates the halting and reversing of this process by curbing the power of finance capital and its hold on industrial capital. Ietto-Gillies (2002: ch. 9) puts forward a different view on the causes of globalisation and this leads to specific policy implications. The analysis starts from the premise that the current economic and social developments are characterised by two specific types of innovation: (a) technological innovation in the field of communication and information; and (b) organisational innovation which allows a specific actor in the economic system – the transnational company – to use the ICTs to further the productive forces. Globalisation is indeed a new phase in capitalist development characterised by a tremendous increase in the potential – and, to a lesser extent, the actual – development of the productive forces.

Both the organisational and technological types of innovations have, so far, been exploited mainly by the transnational corporation. Though not all organisational innovations contribute to the development of the productive forces, many do. Indeed the scope for further development and exploitation of innovation by the TNCs themselves and by other actors in the economic system is huge.

Starting from the above premises, let us turn to the causal analysis of globalisation. In this context it is useful to distinguish between the driving forces of globalisation and its dominant causes. The driving forces in the globalisation process are all those elements that contribute to the process and shape its pattern. In particular: the activities of TNCs and of financial institutions; the diffusion of the ICTs; the policies of governments, particularly those related to liberalisation and de-regulation; the policies of international institutions such as the International Monetary Fund (IMF) and the World Trade Organization (WTO).

Not all these forces operate on an equal basis. Two in particular I consider to be the dominant causes, that is those
at the root of the globalisation process and those which are largely irreversible.

In trying to identify the dominant causes I apply the concept of *causa causans* developed by Keynes (1937). He uses this concept in order to establish a basic, dominant cause of the level of output and employment in a complex system where many forces operate at once. This is indeed the situation as regards the globalisation process. In the identification of the dominant causes a litmus test will be used consisting of the following two conditions: (a) the dominant causes are a subset of the driving forces and they are identified as those that specifically contribute to the development of the productive forces at the basis of the globalisation process; (b) such a development of the productive forces and the dominant causes behind it are largely irreversible.

On the basis of these conditions the two dominant causes or *causae causantes* of globalisation can be identified in the following two areas of innovation, both of which contribute to the development of the productive forces.

1. Technological innovation in the field of communication and information together with advances in the field of transportation.
2. Organisational innovation and in particular the organisation of production across countries.

Technological and organizational innovations are strongly interlinked. The diffusion of ICTs makes possible the organisational innovation and the vast development of TNCs’ activities we are witnessing. Conversely, the needs of TNCs are behind the rapid diffusion of ICTs. These two driving forces are largely irreversible and contribute to the development of the productive forces.

Other driving forces in the globalisation process – such as financial forces, or the liberalisation policies of national governments and international institutions – do not contribute to the development of the productive forces; moreover, they are indeed reversible. For these reasons they are here seen as different from the two dominant causes in the role they play in the globalization process. Therefore though I consider the impact of financial forces and deregulation/liberalisation as very important in the shaping of the current globalisation process, I do not see them as irreversible or as contributors to the development of the productive forces.

The main characteristic of the TNCs is their ability to plan, organise and control business activities across countries. It is a characteristic currently specific to them and one that, therefore, differentiates them from other actors in the economic system who cannot – or not yet – organise themselves internationally. Such actors include labour, the consumers, unination companies and indeed local, regional and national governments.

The TNCs play a very important role in the globalisation process because: (a) they are key to organisational and technological innovations and therefore to the development of the productive forces; (b) they contribute to most flows of international transactions as listed in section 3 above; (c) they are, so far, the only actor that can truly plan, organise and control activities across borders; (d) they are in a position to take full advantage of the ICTs and indeed contribute to their diffusion and development; (e) they participate in the globalisation process as active rather than passive participants, unlike many other actors.6

5. Policy implications
There are specific long-term policy implications emerging from this analysis; most of them derive from the consideration that those driving forces of the globalisation process which are not dominant causes, can be reversed. We shall deal with the relevant policy implications in three areas: the financial sector; the TNCs and the ICTs.

*The financial sector*

The analysis of the previous sections considers the growth of financial transactions to be a driving force, though not a dominant cause. Much financial activity, far from contributing to the development of the productive forces is a hindrance to it and has a purely distributive purpose. Moreover, the financial dominance of domestic and international economies is reversible if the political will is there.

The excessive growth of the financial sector worldwide has been at the root of the economic crisis of 2008 whose impact is still with us as this chapter is revised. The relationship between the crisis, the relative size of the financial sector and the lack of regulation has recently been the object of many works.
The crisis has highlighted the following. (a) There has been excessive, unsustainable growth of the financial sector in the last 30 years. (b) This growth is connected with the liberal, market ideology in politics, business and much of the economics profession. (c) This growth together with a variety of government regulations ranging from taxation to liberalization of the labour market have had a huge impact on the changes in the distribution of income and wealth in favour of the rich (Atkinson and Piketty 2007; Lankester 2009). (d) The growth of the financial sector has had a negative impact on the real sector of economies; it has also made the economic system as a whole more unstable. (e) The unregulated flows of finance across countries have made the world more interconnected and this has made the crisis more devastating for smaller and fragile economies such as Iceland, Ireland, Greece, the eastern European and the developing countries (Wade 2009).

As I write, the costs of the crisis are being met by taxpayers and so largely by the lower income people in most countries including the UK. It is interesting to note that immediately after the crisis the liberal press and most of the economics profession have abandoned the ‘market is best; no government intervention’ stance and asked for the bailing out of the financial sector. Several banks have been taken into public ownership though the British Labour Government has stressed from the beginning its non-interference with the management of the nationalized banks.

There are policy implications from the role of the financial sector in globalisation, its growth and the current crisis. For years the public has been told that in order to get the full benefits of globalisation we must have an unregulated financial sector within and across borders. The approach adopted here claims the opposite. An unregulated financial sector has led to its excessive growth at the cost of the real sector and to the biggest economic crisis for 80 years. Regulation is possible and necessary in order to limit future instability and in order to achieve a globalisation process based more on the real sector and in favour of the many not only the few.

Regulation should take account of both institutional and systemic risk and include the following. (a) Separation of financial institutions according to the type and level of institutional risk involved. Specifically: institutions dealing with commercial banking; with long term borrowing and lending (i.e. housing mortgages) and with investment banking. Such separation would diminish future risks for the institutions as well as the system as a whole. It would also lead to smaller size for financial institutions thus avoid future situations in which an institution is deemed too big to fail; moreover, it would inject more competition into the system with benefits for the consumers. (b) The financial sector and those strata of society that most benefitted from de-regulation should bear the cost of the crisis. (c) There should be a strong regulatory authority and framework at the national level. (d) At the international level, the crisis has highlighted the need for a new, regulatory institutional architecture dealing with cross-border flows, with tax revenues issues and with rescue packages. (e) A tax on cross-border financial transactions is long overdue.

The transnational corporations

Transnational activities can be part of the development of the productive forces and as such have the potential for vast contribution to the economy and society. However, there is a need to look again at the TNCs, their activities and power relationship with other actors and to develop a policy framework that increases the actual contribution to the economy in line with potential contribution.

In the last 30 years we have been bombarded with a rhetoric based on the equation, globalisation equals liberalisation, unregulated markets and self regulation by large businesses and particularly by the TNCs. This equation seems to have been accepted by many on both the right and the left: the former sees it as desirable, the latter as inevitable. It is neither, and we must reject the equation. We can have many positive aspects of globalisation without the – so-far – associated deregulation binge of the 1980s and 1990s, with all the related problems they generated.

The TNCs play the key role in the development of organisational innovation within and across borders. In the previous sections their activities have been identified as one of the two dominant causes of the globalisation process. The other one being the ICTs. They are, at present, the only actor that can truly plan, coordinate and control activities across borders. This puts them in a position of considerable power vis-à-vis other actors and in particular labour, national governments, consumers and uninational companies.
The 1960s and 1970s were seen as decades of confrontation between TNCs and national governments, particularly but not exclusively those in developing countries. There were large numbers of nationalisations of foreign affiliates particularly in developing countries.

The wind changed in the political environment from the 1980s onward. These were seen as decades of cooperation between national governments and TNCs (Dunning, 1993: ch. 13). Far from threatening nationalisations, many governments in developing countries followed in the footsteps of some developed countries in engaging in large-scale privatisations. The privatised assets were often bought by foreign companies. UNCTAD (1993: fig. 1, p. 17) shows that the number of nationalisations peaked in the mid-1970s and became non-existent after the mid-1980s. Privatisations started in the mid-1970s and increased very rapidly in the 1980s and 1990s.

The cooperative stance went hand-in-hand with the establishment and diffusion of the liberal agenda. In this ideological framework, the cooperative stance has increasingly led to a stronger and stronger position for TNCs leaving them free to follow their own strategies in an unfettered way. In effect we have seen cooperation turning into the TNCs’ domination of other economic players including governments themselves.

Various groups in society saw their power waning while the distribution of income and wealth moved away from the poorest people, groups, communities, classes, countries, to the rich ones. This has led to a social and political environment characterised among other elements by the following. (a) Increasing discontent which has taken the route of grass-roots opposition to the visible face of global capitalism (such as high-profile TNCs and well-known brands). (b) Disillusion with the democratic process. Confrontation has come back on the world agenda but not as confrontation between governments and TNCs but rather between people – organised in various pressure groups – and TNCs as well as international institutions (such as the World Trade Organisation) seen as the agents of TNCs and the midwives to the globalisation ills. Confrontation has often taken on the form of street protests. As governments followed strategies for the few, often in opposition to democratic principles, people have come to believe less and less in the democratic process as a way of changing the social and economic situation. The gradual fall in electoral participation in many developed countries – and most notably in the UK and the US prior to the election of Obama – is a sad sign of this disillusionment with the democratic process.

The way out seems to be to channel this new style confrontation from street protests to politics. The democratic process must be made to work and this can only be achieved if we move from confrontation to regulation. National governments must regain the lead in developing appropriate policies to deal with the TNCs’ powerful position. We need regulation to channel the many opportunities and cope with the many problems raised by the new technologies and by the TNCs’ activities (in relation to the environment, safety, competition and labour standards). Many problems cannot be tackled without appropriate international institutions. Self-regulation is unlikely to work for most issues including those related to the environmental and to labour standards; in the end these standards will always be in the way of profit-making. Moreover, self-regulation cannot secure the coordination within and between industries necessary for the long-term prosperity of companies and countries.

We need more coordination power within and across frontiers, by other actors. There is therefore a need to implement policies designed to develop countervailing transnational power in the other actors, be they labour, unational companies, consumers or governments themselves. This will enable these actors to participate fully and actively in the globalisation process and will make the process more inclusive.

In a world in which much activity takes place across borders, there is an increased need for transnational governance as well as for the strengthening of national and regional governance. This can be achieved via the establishment of appropriate supranational institutions among whose aims should be the monitoring of transnational business activities.

Transnational companies have a positive role to play in the current phase of capitalist development. Many are involved in much-needed development and diffusion of innovation; many produce products that people genuinely want and need; many generate employment and develop skills. However, their activities must be regulated by a system of coherent governance within and between borders. The current pattern of social exclusion from the benefit
of globalisation and of technological advances, must be replaced by a more inclusive and participatory framework. Inclusiveness must also embrace present and future societies via a serious commitment to (and implementation of) a responsible strategy for the environment.

The technological basis of globalisation

The development of the ICTs and indeed of other technologies, particularly in the life sciences, are giving a tremendous boost to the productive forces. We are, in many ways, still at the beginning of the exploitation of productive potential of all the new technologies. There are some key questions arising from these developments and in particular the following. (1) Can knowledge and the results of research be kept private when its public character is so clear in terms of the scope for (and low marginal costs of) utilisation and diffusion?; (2) For how much longer can the intellectual property laws protect the revenue of cultural industries in the context of technologies that allow free use of products? (3) What is likely to happen to these industries long term (Knopper 2009)? Can/should governments take them under their wings? (4) Can the social relations of production remain the same in the face of such sweeping changes in the productive forces?

6. Conclusions

This chapter starts with an analysis of the globalisation process in terms of its qualitative and quantitative characteristics. It then considers the main types of international transactions and the role played by transnational corporations in them.

A brief summary of various theoretical approaches to globalisation is followed by a specific approach that sees the TNCs and the ICTs as the dominant causes of globalisation. This conclusion is reached using Keynes's methodological use of the concept of *causa causans* and distinguishing between driving forces and dominant causes of globalisation.

Thus the TNCs are here placed at the very centre of the globalisation process and in direct causal relationship with it. Their participation in it is seen as active and, indeed, causal. This contrasts with the passive role played by other actors such as labour, consumers and uninational companies.

There are specific policy implications arising from the approach presented here in relation to: the financial sector and the crisis of 2008; the role of TNCs in the economy and society; and the role of the new technologies. These implications are discussed in section 5.

Notes

1. The views in this chapter are further developed in Ietto-Gillies (2002), particularly chapters 1, 2, 9 and 10.
2. Details on definitions and on the theoretical positions of various authors are in Ietto-Gillies (2002: ch. 9).
3. The share of asset ownership that can secure control can be deemed to be as low as 10 per cent (IMF, 1977). Below it the equity investment is classified as portfolio. See Ietto-Gillies (2005: ch. 1) for more on control.
4. For the relationship between trade and international production cf. Cantwell (1994) and Ietto-Gillies (2005: ch.19). These works discuss the theoretical underpinning of the relationship and give references to the relevant literature.
5. A fuller analysis of Keynes's position is in Gillies and Ietto-Gillies (2001) as well as in Ietto-Gillies (2002: ch. 9).
6. These points are developed at greater length in Ietto-Gillies (2005: ch. 15).

References


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