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Theoretical Perspectives on the Transnational Corporation

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Rhys Jenkins reviews the fundamental tenets and policymaking implications of four major perspectives—neoliberal, global reach, neoimperialist, and neofundamentalism—on transnational corporations (TNCs). According to Jenkins, the neoliberal perspective emphasizes the relative efficiency of the TNC and its capacity to rectify market imperfections, particularly in the South where such imperfections are more pervasive and extreme. The global reach perspective emphasizes the oligopolistic nature of TNCs, which possess the power to create and benefit from market imperfections. Proponents of this perspective warn that governments need to be cautious in their relations with TNCs and to use regulation to ensure that the host state benefits from the presence and economic activities of TNCs. The neoimperialist perspective views the TNC as an obstacle to the socialist transformation of society. TNCs drain host-state resources, create monopolistic structures within the host state, and eviscerate the national bourgeoisie. The result in the South has been perpetual underdevelopment. Neofundamentalists are Marxists or neo-Marxists who view TNCs as positive and progressive agents of social change. Like Marx, they believe only the dynamic processes of capitalist production are capable of providing the material base for socialism. Analytically, the neofundamentalists have much in common with the neoliberals but with a different outcome.

Introduction

Not surprisingly, the intense debate over the impact of TNCs in the Third World has generated a vast literature and throws up a large number of con-

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flicting arguments and positions. In order to bring some order to this literature, a number of writers have attempted to identify different approaches to the TNCs (Lall, 1974; Hood and Young, 1979, ch. 8). It is obviously useful to distinguish between those writers whose main emphasis is on the positive benefits which TNCs bring to Third World countries and those who adopt a more critical approach, stressing the disadvantages of TNC activities (although in practice there is a continuum with many writers discussing both costs and benefits and differing primarily over the degree to which state intervention is necessary to ensure that the benefits outweigh the costs). Although some writers have been content to adopt a twofold classification along these lines (e.g., Biersteker, 1978) this fails to recognize the very real methodological differences between Marxists and non-Marxists writers, which have important implications for their analysis of the TNC. Since Marxists and non-Marxist alike adopt different positions *vis-à-vis* the TNC, it is appropriate to start with a fourfold classification of approaches towards the TNC.

	Pro-TNC	TNC Critics
Non-Marxist	Neo-classical (Reuber, Meier, Vernon, Rugman, Balasubramanyam)	Global Reach (Barnet and Muller, Streeten, Lall, Vaitsos, Helleiner, Newfarmer)
Marxist	Neo-fundamentalist (Warren, Emmanuel, Schiffer)	Neo-imperialist (Baran, Sweezy, Magdoff, Girvan, Sunkel, Frank)

The above table identifies four main perspectives on the transnational corporation—the neo-classical, the Global Reach, the neo-fundamentalist and the neo-imperialist—and some of the leading exponents of each approach amongst writers concerned with the impact of TNCs in the Third World. . . . The purpose of this chapter is to sketch in broad outline the main features of each perspective.

Neo-Classical Views

Most advocates of the benefits of foreign investment by TNCs base their arguments on neo-classical economic theory. Although the neo-classical case has developed considerably over the past twenty-five years, a common theme runs through all these writings. It is that the TNCs act as efficient allocators of resources internationally so as to maximize world welfare. The distribution of the benefits from TNC operations is either assumed to ac-

Internalization

In the last ten years a new neo-classical synthesis for analysing trade and investment by TNCs has emerged. . . . It has become the approach adopted by most pro-TNC writers in recent years. The major proponents of internalization are quite specific in seeing it as a general theory within which previous contributions can be incorporated (Buckley and Casson, 1976; Rugman, 1981), regarding it as a synthesis not only of earlier neo-classical contributions but also of some of the critical studies discussed below.

The central argument of this approach is that TNCs exist because of market imperfections. If all markets operated perfectly there would be no incentive for firms to go to the trouble of controlling subsidiaries in different countries and to internalize markets between them, rather than engaging in arm's length transactions with independent firms. Internalization then is a way of bypassing imperfections in external markets.

Imperfections in a number of areas are regarded as being important in explaining the existence of TNCs. Markets for intangible assets such as technology or marketing skills are notoriously imperfect because of their public good nature, imperfect knowledge and uncertainty. This makes it difficult for the seller to appropriate fully the rent from such assets through external market transactions and creates an incentive to internalize. Similarly in vertically integrated industries such as oil or aluminium there are gains from internalization because of the existence of small numbers of oligopolistic firms and large investments which take a long time to mature. Internalization avoids the difficulties of determining market prices and the uncertainties associated with arm's length transactions in such a situation. A further important source of market imperfections internationally is government intervention. The existence of trade barriers, restrictions on capital movements or differences in tax rates between countries provide a further incentive to internalize since intra-firm prices can be set to minimize the effects of such controls.

The analysis of the consequences of the growth of TNCs follows from the view that they are essentially an efficient means of overcoming market failure. They therefore act to increase efficiency in the world economy. As with the product cycle theory, technology or information plays a central role in internalization theory. In analysing the gains to host countries these are not primarily related to the transfer of capital, as in the traditional neo-classical model, but to transfers of technology which would not otherwise take place because of external market imperfections (Casson, 1979: 5). More generally it is argued that the activity of TNCs makes both goods and financial markets more efficient than they would otherwise be (Rugman, 1981: 36). It has even been suggested that since market imperfections are more pervasive in the Third World than in the advanced capitalist countries, Third World countries are in a position to gain even more through TNC operations which circumvent such imperfections (Agmon and Hirsch, 1979).

A crucial assumption of this application of internalization theory to TNC operations is that market imperfections are exogenous, either "natural" or government induced, and that TNCs do not themselves generate such imperfections. As Rugman (1981: 33) points out:

> The multinational firm is able to circumvent most exogenous market imperfections. Concerns about its alleged market power are valid only when it is able to close a market or generate endogenous imperfections. In practice these events rarely occur.

It is here that the contrast between internalization and the Global Reach approach derived from Hymer's work with its emphasis on the creation of market imperfections by TNCs (see below) is most apparent.

Policy Implications

Although internalization theory provides a considerably more sophisticated analysis of TNCs than the earlier neo-classical theories of foreign investment, the policy prescriptions of both approaches are extremely similar. Any problems which TNC operations create are generally ascribed to misguided government policies. Thus a major recommendation is the removal of government induced distortions such as high protective tariffs (Reuber, 1973: 247–8; Rugman, 1981: 138). Such tariffs may give rise to a situation where direct foreign investment reduces income in the host country but the TNCs themselves are not to blame for this.

It follows that since there is, in the absence of misconceived government policies, a net gain to the host country from direct foreign investment (whether through inflows of capital or technology or through more efficient allocation of resources as a result of the elimination of market imperfections) host countries should generally encourage foreign investment, providing a "favourable climate for investment" (although not to the extent of introducing new distortions by granting large subsidies). In some cases the use of cost-benefit analysis to evaluate major projects is advocated but there should be in general a minimum of red tape. Government efforts to regulate the operations of TNCs are strongly discouraged. "Regulation is always inefficient. Multinationals are always efficient," as Rugman puts it (1981: 156–7). Reuber (1973: 248–9) agrees that government attempts to control TNCs probably do more harm than good.

Conclusion

A common thread which runs through the pro-TNC approaches to foreign investment is a primary concern with efficiency in resource allocation. This is of course quite explicit in internalization theory and is the underlying value premise of neo-classical analysis. A second common thread is the belief that direct foreign investment by TNCs is superior to all feasible alternatives. Here one faces the problem of the counterfactual which is at the heart of many of the debates about TNCs, i.e. what would have happened in the absence of direct foreign investment. The assumption of most neo-classical thinking on the subject is that the alternative to DFI is the complete absence of local production. Internalization theory on the other hand emphasizes local licensing as an alternative. Both of these alternatives are generally regarded as inferior to foreign investment.

Global Reach

A sharply contrasting view of the impact of TNCs is given in the writings of those authors who emphasize the oligopolistic nature of the TNCs. This approach has again been given different labels, for example the "nationalist approach" (Lall, 1974). . . . A rather more snappy title which captures the essence of this perspective is "Global Reach," after the title of the best seller on TNCs by Richard Barnet and Ronald Müller (1974).

Central to this approach is the view that foreign investment should be seen as part of the strategy of oligopolistic firms and not simply as a resource flow. Its roots can be traced back to industrial organization theory and the U.S. anti-trust tradition which was first applied to the analysis of DFI by Steve Hymer in the early 1960s. Hymer (1976) identified two major reasons leading firms to control subsidiaries in foreign countries: (i) in order to make use of a specific advantage which the firm enjoys over foreign firms; (ii) in order to remove competition between the firms concerned and to eliminate conflict. While most recent orthodox writings on TNCs have accepted the first point, it is only the Global Reach approach that has continued Hymer's emphasis on foreign investment as a means of restraining competition.

The main focus of attention of this approach is the market power of TNCs. This is seen as deriving from a number of oligopolistic advantages possessed by TNCs particularly access to capital (both internal to the firm and external); control of technology (both product and process technology); marketing through advertising and product differentiation; and privileged access to raw materials. (See Lall and Streeten, 1977: 20–9, and Hood and Young, 1979: 48–54, for a fuller discussion of these advantages.)

The existence of oligopolistic markets means that firms enjoy considerable discretionary powers rather than being the atomistic firms of neo-classical theory which respond to market conditions. Consequently much of the Global Reach literature focuses on the TNCs as *institutions*, their strategies and tactics. A leading proponent of this approach, Constantine Vaitsos, brings this out clearly in discussing the provision of "collective inputs" (i.e. a package) as a means of preserving monopoly rents. He concludes, "Thus a technological monopoly is transformed into an *institutional* one. *Viewed in this light the product cycle theory is seen as a theory of monopoly cycles*" (Vaitsos, 1974a: 18; emphasis in the original).

Whereas for neo-classical writers on the TNCs, particularly internalization theorists, market imperfections are exogenous, arising from government intervention or the nature of certain products such as technology, for the Global Reach view the TNCs are themselves major factors creating imperfect markets. Far from TNCs increasing global efficiency through overcoming market failure, they reduce efficiency by making markets less perfect as a result of their oligopolistic strategies.

The Global Reach approach has highlighted a number of consequences of the market power of TNCs for host countries. . . .

Market structure. TNCs have tended to invest in oligopolistic markets in host Third World countries and it has been suggested that they tend to contribute to increased concentration.

Monopoly profits. The market power of TNCs enables them to earn monopoly profits in host countries. These profits, however, do not always appear in the tax returns of the foreign subsidiaries because of various accounting procedures used by TNCs, particularly transfer pricing. There is also the question of how such monopoly rents are distributed between the TNCs and the host countries in which they operate.

Abuse of market power—restrictive business practices. Individually and collectively TNCs act in order to restrict competition in various ways. Individually they impose restrictive clauses on subsidiaries and licenses through technology contracts. These include tying inputs of raw materials, machinery, etc., to the technology supplier or restricting exports in order to divide world markets. Collectively they form cartels or engage in informal collusion through market sharing agreements or the allocation of spheres of influence.

Demand creation. TNCs use their market power to create demand for their products rather than responding to consumer preferences expressed through the market. This leads to "taste transfer" via the TNC and the expansion of the market for products which are inappropriate for local conditions.

Factor displacements. The package nature of DFI and the monopoly power of the TNCs leads to situations where at least part of the package displaces local inputs (Hirschman, 1969). Importing technology which is not available locally and hence supplements local resources could also bring with it imports of capital and management which displace local capital and entrepreneurship. This has led to concern over the denationalization (i.e. the extension of control by foreign subsidiaries) of local industry, which is seen as a reflection of the market power of TNCs rather than their inherently greater efficiency compared to local firms.

Policy Implications

A major implication of this view of foreign investment is the need for state control of TNCs. These controls may be imposed either on a national or international basis. The areas which have been particularly emphasized as requiring regulation are transfer pricing and restrictive business practices. Governments in a number of countries have set up agencies to control foreign investment and technology transfer since the early 1970s, with a view to eliminating practices such as export restrictions and tied inputs, and monitoring TNC behavior. There have also been steps to develop codes of conduct on TNCs and technology transfer by various international agencies.

The emphasis on TNCs as oligopolists which generate monopoly rents in their activities has also led to the view that the state in the Third World should actively intervene in bargaining with TNCs in order to ensure that a greater share of such rents accrue to the host country. There are two areas in which such an emphasis on bargaining has been of particular significance. First in the extractive industries where host governments have negotiated with TNCs to increase their share of revenue through taxation of profits, royalties, share ownership, etc. Secondly in technology transfer where government agencies have intervened in negotiations often between two private parties in order to reduce the level of royalty payments and hence the outflow of foreign exchange.

A corollary of this emphasis on monopoly rents and the scope for bargaining is that foreign investment projects cannot be analysed along the "take-it-or-leave-it" lines of conventional cost-benefit analysis. Any such project will itself be subject to bargaining over the distribution of returns with a range of possible outcomes. Thus government policy should not be directed primarily at evaluating whether a proposed foreign investment project has a positive net present value, but rather at getting the best possible terms from the foreign investor.

Insofar as the packaged nature of DFI is seen as an important source of monopoly rents for TNCs, there is a case for "unpackaging" direct investment into its constituent elements. In other words rather than acquiring capital, technology, intermediate inputs, brand names, management skills all from the same TNC supplier, efforts can be made to acquire each component individually. This would permit each to be obtained at the lowest possible cost and for those elements for which domestic substitutes exist to be acquired locally. Such a call for unpackaging has become common in recent discussion of TNCs and technology transfer.

A further implication often drawn from this approach is that the state should give preferential treatment to national capital, e.g. in terms of access to local sources of credit. This derives from the view that TNCs tend to displace local firms primarily because of their market power rather than because of greater productive efficiency. The state should therefore attempt to redress the balance in favour of local capital. Indeed it provides a theoretical rationale for forms of bourgeois nationalism as well as greater state intervention in the economy.

Conclusion

The overall framework of this approach contrasts with the pro-TNC writings discussed above in a number of key respects. First, TNCs are seen as important creators of market imperfections rather than as competitive firms or as an efficient response to exogenous imperfections. Secondly, TNCs often substitute rather than complement local factors. In other words the alternative of production under local control is more feasible than pro-TNC authors admit. Thirdly, there is a greater concern with the distributive effects of TNCs both internationally and internally.

Neo-Imperialist Views

The best known Marxist or neo-Marxist approach to TNCs is that represented by the Monthly Review School (especially Baran, Sweezy, O'Connor and Magdoff) and those writers on dependency most influenced by the Monthly Review approach (for example Frank and Girvan). These authors view the TNCs as a major mechanism blocking development in the Third World and an important obstacle to socialist transformation.

The origins of this approach can be traced back to the classical Marxist writings on imperialism in the early twentieth century with their stress on the concentration and centralization of capital and the link between monopolization of industry, capital export and imperialism (Lenin, 1917; Bukharin, 1917). A central element in the argument was that the monopolization of industry led to a growing mass of profit in the major capitalist countries, while at the same time limiting the possibilities of accumulation at home because of the restrictions imposed on expansion by cartels and trusts. This led capital to seek outlets for this relative surplus of capital overseas (see Olle and Schoeller, 1982 for a critique of this view). Furthermore Lenin particularly emphasized the parasitic nature of imperialism stressing that the development of monopoly inhibits technical progress and leads to a tendency to stagnation and decay (Lenin, 1917, ch. viii).

This leads to the question of the impact of capital export or more generally imperialism in the countries on the receiving end. Marx himself had stressed the progressive nature of these processes and this view was accepted (although only mentioned in passing) by the major Marxist authors writing on imperialism. However, as Warren (1980: 81–3) has stressed, the implication of this view of a parasitic, decaying monopoly capitalism was that imperialism could no longer play a progressive role in the colonies. It was not surprising therefore that imperialism was recognized as a major obstacle to industrialization of the colonies at the 1928 Congress of the Comintern.

The recent neo-imperialist literature continues Lenin's and Bukharin's emphasis on the rise of monopolies as a cause of TNC expansion, either by reference to the classical theories of imperialism or through the new version of the surplus capital theory proposed by Baran and Sweezy (1966). They argued that a major characteristic of U.S. capitalism was the tendency for the economic surplus, defined as the difference between total output and the socially necessary costs of producing total output, to rise over time. The major cause of this rising surplus was the growth of monopoly and the consequent decline of price competition with the result that increases in productivity did not lead to falling prices as under competitive capitalism, and that the gap between prices and production costs tended to widen. While the surplus tended to rise, the monopolization of the economy limited the opportunities for investment because of the need to maintain monopoly prices (Sweezy and Magdoff, 1969: 1). There is therefore a chronic tendency to underconsumption and stagnation under monopoly capitalism.

One of the possible outlets for the surplus identified by Baran and Sweezy was foreign investment. (Others discussed were advertising, government expenditure and militarism.) Thus, although only alleviating temporarily the problem of the rising surplus, because the return flow of profits and dividends to the United States soon exceeded the outflow of new investment, capital export and the overseas expansion of U.S. firms was seen as primarily a consequence of the existence of large monopoly profits and the need to go slow on expanding productive capacity directed at existing markets. Two solutions offered themselves—international expansion or conglomerate expansion (i.e. diversification into new industries in the domestic market) (Sweezy and Magdoff, 1969; O'Connor, 1970).

It is worth noting in passing that this emphasis on monopoly and the tendency to underemphasize the competitiveness of the oligopolies (cf. Barratt Brown, 1974: 217) was also accompanied by the view that the United States enjoyed undisputed hegemony within the international capitalist system. This view characterized by Rowthorn (1975) as "super-imperialism" plays down the increasing competition between the United States, Western Europe and Japan, both politically and economically which underlies the alternative "inter-imperialist rivalry" view of international relations. The downplaying of conflicts between capitals and between advanced capitalist states also tended to go hand in hand with a "Third Worldist" view which stressed that the struggle against capitalism and imperialism would primarily take place in the underdeveloped countries.

Foreign investment in the Third World is seen as contributing to the "blocking development" (Amin, 1977) or the "development of underdevelopment" (A.G. Frank, 1969). Three principal mechanisms link foreign capital to underdevelopment. Considerable emphasis is placed on the so-called "drain of surplus" from the underdeveloped countries in direct opposition to the claim of neo-classical economists that foreign capital supplements foreign exchange earnings and local savings. Thus surplus transfers which add to the problems of surplus absorption in the advanced capitalist countries at the same time deprive the countries of the Third World of the necessary resources for economic progress. The TNCs are viewed as a "vast suction-pump" for obtaining resources from the periphery. At the same time they are a major part of the balance of payments problems which are so chronic in most Third World countries.

While much of the empirical analysis of the impact of TNCs concentrated on the outflow of capital from the Third World, equal or even greater importance was attached to the impact of foreign investment on the economic and social structures of the underdeveloped countries. As Baran puts it

> The worst of it is, however, that it is very hard to say what has been the greater evil as far as the economic development of underdeveloped countries is concerned: the removal of the economic surplus by foreign capital or its reinvestment by foreign enterprise (Baran, 1973: 325).

The extension of TNC operations to the underdeveloped countries has also led to the extension of the monopolistic or oligopolistic structures of advanced capitalism to these areas (Dos Santos, 1968 on Brazil; Caputto and Pizarro, 1970: ch. 11.5 on Chile). Given the association of monopoly with stagnation in the United States, it is unlikely that monopolistic subsidiaries of U.S. firms operating in the periphery will be a major dynamic force. Thus monopolistic firms with high profit rates will tend to repatriate profits, intensifying the drain of surplus and limiting the rate of capital accumulation within the host economies.

Insofar as TNCs do reinvest profits locally, they are likely to expand by displacing or acquiring local competitors or moving into new areas of activity (diversification). Thus the twin spectres arise of denationalization (i.e. increasing foreign control over the economy) and the reduction of the spheres available to local capital which is confined to the most competitive and least profitable sectors of the economy. This brings us to a central

local bourgeoisie in the Third World to the subordinate status of a "comprador" or "dependent" bourgeoisie which is consequently incapable of playing its historical role in promoting capitalist development. Baran writing in the 1950s emphasized the strengthening of local merchant capital by foreign capital which was mainly directed towards the export sector, and the consequent blocking of the development of industrial capitalism (Baran, 1973: 337). Latin American dependency writers in the 1960s argued that a local industrial bourgeoisie did exist in the region but that its interests were closely tied to those of foreign capital and that it would not provide the basis for a strategy of national development. The crucial decisions on production and accumulation would be made in the light of the global interests of the parent companies of the foreign subsidiaries, and not in the interest of local economic development, a situation which local capital would be unwilling or powerless to alter.

While the drain of surplus, the creation of monopolistic structures and the emergence of a dependent bourgeoisie were the three main ways in which foreign capital contributed to underdevelopment, they were by no means the only consequences of TNC expansion. A common argument is that a foreign capital far from supplying basic goods for the mass of the population tends to concentrate on the production of luxuries for a small élite. The extensive activities of the car TNCs are often cited as an example (Frank, 1969: 168–9). The tendency for foreign subsidiaries to generate links primarily with the parent company or other affiliates and only to a very limited extent with local suppliers, leads to the development of an economic structure which is not integrated at the local level (Sunkel, 1972). Moreover, the TNCs are able to use their political influence in order that public expenditure is allocated to support their investment through the provision of infrastructure.

Political Implications

The political conclusion that generally follows from this analysis is the need to break out of the capitalist system in order to transcend underdevelopment. Hostility to TNCs is directed at them as the prime representatives of capitalism in the post-war period. In any case the lack of an authentic national bourgeoisie capable of leading the process, renders national capitalist development in the Third World impossible. Thus only through a socialist revolution can the situation of the periphery be fundamentally altered. Such a socialist transformation will however inevitably have to face the hostility of the TNCs and their home states.

Conclusion

Although many of the neo-imperialist arguments concerning the impact of proach, and the two groups of writers are sometimes considered together (for example by Biersteker, 1978), the political conclusions drawn are quite different. This derives from a very different evaluation of the role of the local bourgeoisie in Third World countries and the possibility of state action to control the TNCs.

Neo-Fundamentalist Marxists

In the last decade some Marxists have begun to develop a very different view of the TNCs to that discussed in the last section, arguing that their impact on the Third World is overwhelmingly positive. This is presented as part of a more general picture of the progressive role played by capitalism in developing the forces of production and providing the material basis for a socialist society. These authors trace their roots back to Marx's view (for example in some of his writings on India) that the impact of imperialism in destroying pre-capitalist structures and laying the basis for the development of capitalism was progressive. The clearest exponent of such a position was Bill Warren (1973, 1980; see also Schiffer, 1981).

Warren stresses the continued competitive nature of the capitalist system going as far as suggesting that competition internationally has intensified since the loss of Britain's position of world hegemony, despite the rise of oligopolistic market structures within individual countries (Warren, 1980: 79–80). Thus he rejects the Leninist view of surplus capital as a cause of capital export and implicitly sees the geographic extension of capitalism as a consequence primarily of the competition of capitals (for a succinct presentation of this view see Cypher, 1979).

The main thrust of his thesis is to argue that the impact of imperialism on the Third World is progressive, in the sense that it is developing the productive forces in these areas. As part of this thesis he argues that "private foreign investment in the LDCs is economically beneficial irrespective of measures of government control" and "must normally be regarded not as a cause of dependence but rather as a means of fortification and diversification of the host countries. It thereby reduces 'dependence' in the long run" (Warren, 1980: 176).

The arguments on which he bases this thesis reproduce virtually point by point the claims made by bourgeois advocates of the TNCs discussed above. The three major assumptions of the neo-classical view of foreign investment are all accepted by Warren. First, foreign capital is seen in the main as complementary to local capital rather than displacing indigenous efforts (Warren, 1973: 37). Secondly, he points to increasing international competition particularly amongst manufacturing TNCs (Warren, 1980: 175), which has increased the bargaining power of Third World states enabling them to reduce the monopoly rents earned by the companies and to

obtain technology on more favourable terms. Finally, Warren accepts the neo-classical view that TNCs not only supplement existing local resources but also generate additional local resources or utilize resources previously unutilized (Warren, 1980: 173, n. 31).

Not only does Warren share the main assumptions of pro-capitalist TNC advocates, but even on points of detail he reproduces the same arguments. Thus for instance TNCs are seen as playing a major role in opening up advanced country markets for Third World exports (Warren, 1973: 26–8), while the "drain of surplus" view of foreign investment is criticized on exactly the same grounds used by neo-classical economists (Warren, 1980: 140–3).

While Warren's position is an extreme one amongst Marxists, other writers who wish to stress that the problem of underdevelopment is a consequence of capitalism and not of TNCs *per se*, and that the foreign or local ownership of capital is not a major factor, come close to his position. Thus Emmanuel in pursuing this line of argument states that "Whenever we find . . . that in any particular aspect the behavior of the MNC differs from that of the traditional capitalist undertaking, the specific character of the MNC is generally to its (i.e. development's) advantage" (Emmanuel, 1976: 763). Emmanuel stresses primarily the technological contribution of TNCs emphasizing particularly the low cost of imported technology and rejecting arguments of the "inappropriate technology" variety (Emmanuel, 1976, 1982).

Political Implications

A major explicit political conclusion of this analysis is the need to distinguish carefully between anti-TNC rhetoric used to serve the interests of an expanding local bourgeoisie in the Third World, and true anti-capitalist struggles. As Warren (1973: 44) concludes, "Unless this distinction is clearly grasped the Left will find itself directly supporting bourgeois regimes which, as in Peru and Egypt, exploit and oppress workers and peasants while employing anti-imperialist rhetoric." However, the implicit conclusion to which Warren's analysis points is that capitalist development in the Third World should be actively supported since it is removing many of the internal obstacles to growth, and that the TNCs are playing a significant role in this process.

Conclusion

In recent years Marxist views of the TNCs have polarized around two positions which are, in terms of many of their arguments, not very different from those found amongst non-Marxist writers. The neo-imperialist view stresses the qualitative transformations which have taken place within capitalism with the rise of monopoly, and emphasizes the regressive nature of imperialist expansion, particularly the appropriation of surplus value from the peripheral areas. In contrast the neo-fundamentalist view stresses the essentially competitive nature of capitalism despite the concentration and centralization of capital and sees the international expansion of capital as playing a predominantly progressive role in breaking down pre-capitalist structures, and laying the basis for capitalist development.

The Internationalization of Capital

Although most of the current literature on TNCs and the Third World falls more or less neatly into the four categories discussed so far, and this exhausts the typology laid out at the beginning of this chapter, it is my view that none of these approaches offers a completely satisfactory treatment of the TNCs. . . .

Each of the approaches discussed so far is partial in that it emphasizes one level of analysis. The neo-classical, Global Reach and neo-imperialist approaches all focus on the sphere of circulation, that is on relations of exchange and distribution. Obviously this is the case with the neo-classical view of the firm responding to market forces, but it is also true of the Global Reach concern with *market* power and with income distribution both nationally and internationally. Similarly the neo-imperialist approach has also been described elsewhere as exchange-based (Cypher, 1979) in view of its emphasis on surplus transfer. On the other hand, the neo-fundamentalist view is a "productionist" approach (Jenkins, 1984b; Hoogvelt, 1982: 188–9). Its main concern is with the development of the forces of production and in so far as social relations are considered at all these are derived in a highly mechanistic way from the level of development of the forces of production. None of these approaches is able to successfully integrate the spheres of circulation and production.

Not only are these approaches partial in failing to take account of both the sphere of circulation and the sphere of production, but they also fail to integrate the analysis of TNCs as institutions with a broader analysis of the capitalist system. For both the neo-classical and the neo-fundamentalist approaches with their focus on markets and the forces of production respectively, structural and institutional concerns are largely absent. On the other hand, critics of the TNCs reacting against this neglect "have gone too far in lodging the laws with which they are concerned in firms as institutions, rather than treating the latter as the forms through which the laws of the market are manifested" (Murray, 1972). It is the failure to do this which has led to the position of many Marxist critics of the TNCs who "having first isolated the MNC as the characteristic evil of the century, they study it concretely as an excrescence of the system" (Emmanuel 1976: 769) which logically should lead them to the conclusion that a reformed capitalism without the TNCs would be perfectly acceptable.

A further unsatisfactory aspect of these approaches is their tendency to reduce a contradictory reality to one or other side of a false dichotomy. TNCs are regarded as either competitive or monopolistic. In the Third World they either contribute to development or increase dependence. TNC-state relations are either harmonious or conflictual and the Third World state is either "nationalist" or "comprador." The dominant tendency in the world economy is either towards greater internationalization or the strengthening of nation states. . . .

The point that needs to be emphasized here is that these polarities around which the debate on TNCs has often revolved can lead to a misunderstanding of the real issues.

Some writers, however, notably Palloix and Murray, have attempted to develop a Marxist framework for analysing TNCs which overcomes these three limitations. Although the term is often used very loosely, I shall refer to this as the "internationalization of capital approach." It is far less well represented in the literature on TNCs than any of the other approaches except the neo-fundamentalist position. . . .

In contrast to other critical writings on the TNCs, the starting point of this approach is not the TNCs *per se* but the self-expansion of capital which can be traced through the circuits of capital discussed by Marx in Volume II of *Capital* (see Fine 1975, ch. 7 for a brief exposition of the circuits of capital). The different aspects of the internationalization of capital are identified with the internationalization of the three circuits of capital. The circuits of commodity capital, money capital and productive capital were for Marx three different aspects of the process of self-expansion of capital. In the context of the internationalization of capital these three circuits have been identified with the growth of world trade, the growth of international capital movements, and the growth of the operations of TNCs and the international circulation of products within such firms, respectively (Palloix, 1975). The circuits of capital comprise both the sphere of circulation and the sphere of production.

The growth of TNCs therefore is seen not as a phenomenon in its own right, but as an aspect of a broader process of internationalization of capital which tends to create a more integrated world economy. The driving force which underlies international expansion is capitalist competition (Cypher, 1979). It is important to stress that despite concentration and centralization of capital, the TNCs remain subject to the compulsion of competition. . . .

This approach stresses the highly uneven nature of development brought about by TNC expansion. Foreign investment has tended to be heavily concentrated in a relatively small number of Third World countries (Weisskopf, 1978). Moreover, far from the underdeveloped countries representing a homogeneous block, there is a process of increasing economic differentiation within the Third World with some countries emerging as "newly industrializing countries" or forming the intermediate "semi-periphery" (Marcussen and Torp, 1982: 28–30; Evans, 1979: 291).

Despite the highly uneven nature of its impact, the internationalization of capital is leading to an ever more integrated capitalist world economy. This implies transformations in the relations of production as new areas are incorporated into the circuits of capital. In some cases this involves the extension of fully capitalist relations of production and a corresponding growth of the working class. In other areas it involves modifications to or the reinforcing of existing social relations. The impact of the growth of transnational agribusiness on the relations of production in agriculture provides many examples of such processes as does the incorporation of petty-commodity producers through the use of sub-contracting in manufacturing. Social relations at the periphery are neither frozen into the existing mould by TNC expansion, nor can they be totally neglected. Rather they are being continuously transformed and redefined by the internationalization of capital, but not in any simple or universal way. The creation of a unified capitalist world economy is accompanied by the extension of the competitive process of standardization and differentiation on a world scale. In other words there is a growing tendency for the products and production techniques of TNCs to become similar, while at the same time as part of the competitive struggle capital seeks to differentiate itself attaining super profits through the introduction of new products or new techniques, or taking advantage of different local and national conditions.

A feature of these analyses of the internationalization of capital and dependent development is the role attributed to the Third World state. There is an emphasis on the alliance created between the state, TNCs and local capital which is central to the dynamic expansion of certain Third World economies (Evans, 1979; Weisskopf, 1978). However, it is also recognized that such an alliance is inherently unstable because of the contradictory position both of the local state and the local bourgeoisie.

Political Implications

The analysis of the internationalization of capital focuses attention on two crucial areas of struggle. One is the need to develop international links between workers so that labour is able to combine internationally in order to limit the power of international capital to divide it along national lines (Picciotto and Radice, 1971). The second area for struggle is the state itself. In dependent development the state has come to play a central role not only in regulating but also participating directly in the accumulation process. The alliance of foreign capital, local capital and the state is by no means immutable and both internal and international developments put it

Conclusion

The key features of the internationalization of capital approach are its attempt to locate the TNCs within a broader framework of capitalist development and its integration of the spheres of circulation and production. This enables it to provide a more comprehensive view of the TNC phenomenon which like capitalism itself is recognized as being contradictory in many respects.

Further Reading

The typology of theories concerning TNCs and the Third World used in this chapter is not the only possible one by any means. Other attempts to classify different approaches to the TNCs can be found in Lall (1974), Emmanuel (1976), Hood and Young (1979, ch. 8) and Biersteker (1978). The most useful short summary of the neo-classical view of TNCs in relation to the Third World which takes account of the most recent developments is Balasubramanyam (1980). More detail summaries of all the neo-classical theories discussed can be found in Hood and Young (1979, chs. 2 and 5). A useful critique of the neo-classical approach and particularly of Reuber (1973) can be found in Lall (1974). Rugman (1981) is recommended on internalization theory because it goes beyond the tedious discussions found in some of the earlier literature to bring out the normative implications of the approach.

For the Global Reach approach, the book of that name by Barnet and Müller (1974) is very readable and Chapters 6 and 7 are relevant to the discussion in this chapter. For a more academic presentation of this view, Lall and Streeten (1977; chs. 2 and 3) is particularly recommended. For criticism of this approach generally and of Lall and Streeten in particular see Lal (1978).

The best critical summary of the neo-imperialist position as exemplified by the works of Baran and Sweezy is Brewer (1980, ch. 6). See also Cohen (1973, ch. IV) for a critical account from a different perspective. Sweezy and Magdoff (1969) provide a short analysis of the TNCs. Sunkel (1972) discusses the impact of TNCs in the Third World, particularly Latin America.

The neo-fundamentalist position is summarized in Emmanuel (1976). It is also found in scattered discussion of the TNC in Warren (1973) and (1980, chs. 6 and 7).

Few of the writings of Palloix are available in English and they are in any case extremely dense and difficult to follow. See for example his article in Radice (1975). Cypher (1979) is useful in some respects in contrasting the internationalization of capital with what he terms the Monthly Review School, although he includes Warren in the former. For the
... impact of the internationalization of capital on the periphery

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