UNDERSTANDING CONTEMPORARY GLOBALIZATION FROM A POLITICAL ECONOMIST PERSPECTIVE

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Abstract

This paper presents an alternative interpretation of globalization, viewing it from a political economy perspective. Its central argument is that internationalization in the form of increased trade and foreign direct investment is the nature of capitalist accumulation process, thus, cannot be impeded. This accumulation process necessarily creates its own ideological climate to facilitate acceptance of the doctrine and to justify the economic and social problems it creates. It concludes that there is a globalization tendency since increased internationalization inevitably weakens the role of nation states by transferring some of their functions to newly created supranational states that are fostered by the dynamics of this internationalization process.

Key words: Globalization, political economy, international trade, supranational organizations

Introduction

In response to the weakness of the hyper-globalistsø and skepticsø arguments, an alternative literature has burgeoned based on the idea that ÷the nation-state is neither retaining its primacy nor disappearing, but becoming transformed and absorbedø into a larger transnational state system (Radice, 1998, 2005, 2008, 2009). In other words, globalization denotes a transition process from the nation state phase of capitalism to a qualitatively new

transnational state phase where the nation state is transferring some of its powers to those newly formed transnational states.

Internationalization in the form of trade and foreign direct investment (FDI) is the nature of capital accumulation. The rapid quantitative increase in internationalization, particularly in the form of FDI, at this particular juncture in history of capitalism requires a qualitative structural change and necessarily creates transnational states to regulate this process. These transnational states remove part of the nation stateøs functions and create globalization trends. The increase in the number and role of these new state structures are directly linked to increased internationalization in a dialectical process. In other words, although the speed of these changes may or may not be greater compared to previous epochs in the history of capitalism, the spread of internationalization has reached a point that requires qualitative structural changes to manage this process. In this sense globalization can also be defined as ÷a process of transition from the nation state phase of capitalism to a qualitatively new supranational state phase where the nation states are transformed and absorbed into a larger supranational state systemø

Capital accumulation necessitates the expansion of capital beyond national borders and produces the process of internationalization. Marx (1990) argued that the centralization of capital is the nature of capital accumulation. Centralization means monopolization of huge mass of means of production in the hands of smaller number of capitalists. Marx (1990: 777) explains the logic of concentration in capital as follows: ÷The battle of competition is fought by cheapening of commodities. The cheapness of commodities depends on the productiveness of labor, and this again depends on the scale of production. Therefore, the larger capitals beat the smaller.ø When possibilities for expansion in the domestic markets are exhausted, capital quickly expands beyond national boundaries to seek new market opportunities. As Marx and Engels (1977) wrote in *The Communist Manifesto*, capitalism is a very expansionary and aggressive system.

Understanding Forms of Internationalization

In one of their most widely quoted lines, Marx and Engels (1977: 83) said ÷the need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, and establish connections everywhereø Internationalization in this sense is rooted deep in the nature of the capital accumulation process. Through internationalization, domestic economies of nation states integrate into the world economy. The more a country integrates into the world economy, the more it influences and is influenced by it.

The internationalization of capital takes three different forms: that of commodity, money and production. Commodity capital was the main form of internationalization in the 19th century. Financial capital also internationalized by the end of the 19th century with the development of the credit system. Although it existed to a limited extent earlier, the real expansion of productive capital came after the Second World War with the birth of the multinational corporations (MNCs), and significantly intensified during the 1980s and 1990s.

The sequence of internationalization of these three forms of capital is determined predominantly by developments in the forces of production and a number of political changes. International mobility of capital is a technical issue as well as political one. Recent developments for example, should be seen in the light of a number of technological and political changes. New production techniques and rapid developments in the electronic and

telecommunication sectors, as well as a dramatic fall in transport costs, played an important role in this process. They enhanced the ability of productive capital to move and organize itself internationally without the need to consider the distance between different production units. In addition, the end of the Cold War, the failure of the Keynesian policies to manage the international economic crisis of the 1970s and 1980s, and a general fall in the political power of workers and their organizations have facilitated this process.

The skeptics often argue that the contemporary internationalization process is not unprecedented and trade and capital flows before 1913 were not dissimilar in size to flows in the post-war period (Weiss, 1997, 1998). They claim that for a number of industrialized nations, trade intensity is only marginally greater in 1991 than in 1913. Hirst and Thompson (1996: 2) claim that ÷in some respects, the current international economy is less open and integrated than the regime that prevailed from 1870 to 1914ø This is an important argument, which, if true, could negate our position. In other words, if the nature of the current internationalization process is not fundamentally different from the old one, one would not expect any significant structural changes in the management of this new process. The nation state would remain as the prime actor; there would be no need for transnational state structures and therefore no case for globalization as we have defined it. These arguments, however, are mistaken and can be criticized from a number of perspectives (Hirst & Thompson, 1003).

Firstly, the level and speed of trade integration mainly depend on whether the figures are calculated using constant or current prices. The above argument is based on a calculation of trade intensity using current price export and gross domestic product (GDP). van Bergeijk and Mensink (1997), in contrast, argue that any historical comparison should be based on constant prices since service dominated GDP price index tends to increase much faster than the manufacture dominated exports price index. This means that ÷a historical comparison of a nationøs trade ratio that is based on nominal values suffers from the fact that the price increase for services persistently exceeds the price increase for manufacturesø (van Bergeijk & Mensink, 1997: 164). They show that when calculated with constant prices, the world trade ratio in 1996 (13.5%) is much higher than the 1820s (5%). Kitson and Michie (1995) also calculated the trade ratio using constant prices and found not only that trade openness today is much higher than during the pre-war period, but that it increased dramatically after the 1950s. Maddison (2000: 363) produced more significant results. The world trade ratio increased from 4.6 percent in 1870 to 17.2 percent in 1998. The same figures are 4.9 percent to 28.7 percent for France, 9.5 percent to 38.9 percent for Germany, 0.2 percent to 13.4 percent for Japan, 12.2 percent to 25.0 percent for the United Kingdom (UK), 2.5 percent to 10.1 percent for the United States of America (USA). Which ever measure is used, trade integration is continuing and there is no sign of a slow down (Maddison, 2007a, 2007b, 2008).

Secondly, trade integration can only expand until all tradable commodities are traded. This implies a structural limit to internationalization through trade integration. Therefore the increase in trade intensity is expected to slow down and even stop once the peak has been reached. Moreover, it is often argued that a gradual decline in the share of manufacturing (and agriculture) in total GDP may mean less trade integration as the share of ÷less trade-intensiveø services rises. International trade, however, is only one of many different forms of internationalization and there is a complex and dynamic relationship between them. For example an increase in FDI may have a negative or positive impact on exports depending on whether FDI and exports are substitutes or they complement each other. Trade policy itself

may have impacts on FDI in different ways. For example, the threat of protection had a substantial impact on Japanese FDI in the USA in 1980s [for more detail see Nunnenkamp and Gundlach (1995) and World Trade Organization (WTO) (1996)]. The International Chamber of Commerce (ICC) however suggests that ÷the conventional distinction between trade and investment no longer reflects business realities; presence in a local market is now frequently vital to be able to compete. Companies trade to invest and they invest to tradeø (ICC, 1997).

Capital market integration is another major form of internationalization. During the last few decades, the international flows of financial capital have increased so dramatically that globalization is often characterized by this massive transfer of money. Every day trillions of dollars are traded on foreign exchange markets which amount to many times more than the total value of world trade and GDP. Whether the phenomenal internationalization of capital markets signifies a permanent or transitory feature of internationalization process is not clear, its impacts on national economies are obvious. The growth of international financial flows was largely triggered by the deregulation of financial markets and the abandonment of capital controls which are reversible policies (Pettifor, 2003). As Stiglitz (2000) argues ÷over the last two decades, financial crises have become more frequent and more costlyø As the recent crises in Mexico (1994), Asia (1997), Argentina (2001) and Turkey (2000 and 2001), USA (2008) indicate, the internationalization of financial capital makes national economies more vulnerable to short term capital and money movements.

A further form of internationalization is the ÷non-equity forms of cooperationø which is less visible but still very considerable. ÷NEC covers a broad and heterogeneous range of cross-border activities of companies. They include in particular: research and development (R&D) cooperation; joint ventures with minor foreign equity stakes; the supply of technology or trademarks through licensing agreements; production sharing arrangements, international subcontracting that involves firms with a local majority stake; as well as contracts on franchising and turnkey projectsø (Nunnenkamp & Gundlach, 1995: 4). Moreover, non-tradable commodities are integrated into the internationalization process through FDI which involves not only the tradable commodities but also non-tradable. Although there might be structural constraints on trade, there are no such limits on FDI, which can expand absolutely and relatively without any boundaries.

The predominant form of the current internationalization process, however, is FDI. A very strong upward trend in FDI is observed in almost all relative and absolute indicators of international production, and this now exceeds trade as the other major form of internationalization. The internationalization of productive capital and the formation of extremely large Macs are relatively new phenomena which have been so profound that some have suggested that globalization, as opposed to internationalization, should be identified by the rise of MNCs and FDI. For example, Costello et al. (1989: 39) argues that ÷globalization trend which is clearly a new, post-war phenomenon is the growth of transnational corporations which organize a growing division of production between plants in different countries.ø Kozul-Wright (1995: 135) also argues that ÷this rise of the MNCs, on many accounts, marks a transition from the Golden Age to a ÷globalizing ageø In these accounts, the role of MNCs as long-standing organizers of a broad range of cross-border economic assets and activities has been transformed by new technologies and the relaxation of regulatory controls; free from their national setting and with a fully internalized governance structure these firms can now pursue global strategies of production, marketing, and profit

seekingø MNCs are immensely powerful institutions and their production capacity now has reached record levels (Kozul-Wright, 2002). The following facts produced by the World Investment Report [WIR] (2000, 2003) will be helpful in assessing the importance of MNCs and FDI in this new internationalization process.

FDI inflows have increased steadily throughout the post-war period and more rapidly during the 1980s. Since 1980 FDI has grown many times faster than world trade and output. The annual global inflows increased dramatically from $55 billion in 1980 to $1393 billion in 2000, and declined to $824 billion in 2001 and $651 billion in 2002 due to slow economic growth in most parts of the world (WIR, 2003). The ratio of world FDI inflows to global gross fixed capital formation increased from 2.3 percent in 1980 to 20.8 percent in 2000, and declined to 12.8 percent in 2001 and 12.2 percent in 2002. The inward stock of FDI continuously rose from $699 billion in 1980 to $7123 billion in 2002. Its share in world GDP increased from 6.7 percent to 22.3 percent. In developing countries the same figure was nearly 33 percent in 2001. There are now some 64,000 transnational parent firms (about 7,000 at the end of the 1960s) with around 870,000 foreign affiliates. FDI is more important than trade in delivering goods and services internationally. In 2002, global sales by MNCs reached $18 trillion, which is significantly higher than world exports of $8 trillion. The sales figures for foreign affiliates worldwide increased from $3 trillion in 1980 to $14 trillion in 1999. This figure would be significantly higher if subcontracting, franchising and licensing were to be included. The gross product associated with international production increased from about 5 percent of global GDP in 1982 to 10 percent in 1999. On the technology side an estimated 70 per cent of the global payments of royalties and fees constitute transactions between parent firms and their affiliates. Two-thirds of world trade is controlled by MNCs through intra-firm trade among MNCs and MNC exports to non-affiliates.

The above figures are impressive but they may not reflect the real significance of internationalization in the form of FDI since they record only the initial entry of a firm into a foreign location and subsequent expansions by affiliates often involve little or no FDI. MNCs advance capital from different sources such as commercial banks, local and international equity markets, public organizations and their own corporate systems in the form of internally generated profits for reinvestment. When these different sources are considered, investments into foreign affiliates are estimated to be four times bigger than FDI flows (WIR, 1997: 5). Even this figure does not capture additional investment controlled by MNCs via various non-equity measures, including corporate alliances.

Therefore, even if trade flows before 1913 were not dissimilar in size to flows in the post-war period, there are events that are substantially different that are relevant to and important for the globalization debate. These are the creation of massive MNCs, which control not only FDI but also two third of world trade, and the formation of supranational organizations. ÷The intra-firm trade among MNCs accounts for about one third of world trade, and that MNC exports to non-affiliates account for another third of world trade, with the remaining one third accounting for trade among national (non-MNC) firmsø (WTO, Annual Report, 1996: 44). By controlling international trade, MNCs may be able to impose substantial constraints on nation states. The creation of supranational organizations such as the United Nations (UN), the International Monetary Fund (IMF), the World Bank, the WTO, the European Union (EU), and the North Atlantic Free Trade Association (NAFTA) is also relatively new and very relevant to the debates on globalization. So also is the UN and its sub-agencies such as the United Nations Development Program (UNDP), the UN Commission for

Human Rights, the UN Environment Program, the United Nations Educational, Scientific and Cultural Organization (UNESCO), Save the Children, the Food and Agriculture Organization (FAO), the International Labor Organization (ILO), the World Health Organization (WHO); and non-governmental organizations (NGOs) such as Green Peace, Friends of the Earth, Amnesty International, Oxfam, Christian Aid, Red Cross, etc.

Factors Driving the Process of Internationalization

There are several technological factors driving the process of internationalization. The centralization process is intensified by the growing economies of scale and scope, particularly the initial fixed cost of R&D; the flexibility that comes from reprogrammable capital equipment means that these large units can serve smaller, specialized niche marketsø(Costello et al., 1989: 39); standardization of production and production techniques has made it possible to expand production beyond national borders; the introduction of new technologies that make productive capital more light and mobile and developments in telecommunication technology that reduced the importance of the ÷distanceø factor; a substantial fall in transport costs; international advertising and marketing strategies that help consumption patterns to converge. Because of these technological developments it is now easier to locate production in different parts of the world. The requirement of supervision and enforcement of standards previously required the production process to be carried out within a single production unit. Today the manufacture of components in the production process can be dispersed across the globe or subcontracted to other firms, prior to assembly.

The large MNCs are the driving force and the biggest beneficiaries of this new economic order. As MNCs grow in size, they increase their relative economic and political power, and their strategic influence which helps them to gain concessions and better deals in the bargaining process with workers and nation states. There are two ways through which MNCs can exert influence on state policies.

Firstly, as a result of increased flexibility MNCs ÷can relocate production internationally, wielding immense power over trade unions and national governmentsø (Costello et. al., 1989: 39). In this case MNCs can passively respond to the policies of the nation state simply by not investing. Such a threat may be significant enough to persuade governments to pursue more pro-FDI policies and give significant concessions. However, as many researches have shown, the determinants of FDI are complex and multidimensional which allows the nation state a great deal of flexibility to negotiate the conditions of FDI with MNCs. Although MNCs may benefit from lower levels of labor costs, taxation, regulation, unionization and a flexible work environment, they also require access to large domestic markets (both total and per capita GDP), political stability, good infrastructure, a skilled work force and membership of an economic and political grouping within which to function.

Therefore there is a trade off between the functional requirements of the MNCs and the operating environment that the nation state can offer. A number of countries, such as China, have been able to exert robust conditions on FDI. Moreover, FDI is not a pre-condition for economic development and countries may prefer not having FDI rather than having to comply with their demands. Many countries, such as Japan and South Korea, have successfully developed despite having very rigid policies that limit FDI inflows (Ezeanyika, 2002). The positive and negative impacts of FDI are also far from being uncontroversial. Therefore, although a significant tool in the armory of the MNCs, withdrawing investment or

declining to invest is not the most effective way in which MNCs can exercise influence over nation states. If it were, the skeptics would have been more accurate in their arguments.

MNCs, however, are much more aggressive in their pursuit to control world markets. They do not passively respond to government policies, they aim at shaping them. Therefore, the second way through which MNCs can exert influence on the state policies is more important and relevant to our debate. Although there is a clear tendency to exaggerate the power of MNCs and the powerlessness of nation states in the relevant literature, it is obvious that big businesses have increasingly stronger influence on governments through lobbying activities domestically, as well as through international organizations.

At international level, MNCs representatives are active in lobbying the WTO, the European Commission (EC), the International Standards Organization (ISO), the UN Commission on Sustainable Development and many other bodies concerned with regulatory matters and corporate behavior. The USA has been particularly effective at this, using the threat of trade sanctions to pry open new markets for American business in films and television, motor vehicles, tobacco, agricultural products, pharmaceuticals, etc.

MNCs actively lobby international organizations such as the WTO for investment agreements focused on investorsø rights through their representatives such as the ICC, the Business and Industry Advisory Committee (BIAC) to the Organization for Economic Cooperation and Development (OECD), the European Round Table of Industrialists (ERTI), the European American Business Council (EABC), the United States Council for International Business (USCIB), the Fédération Bancaire de l'Union Européenne (FBUE), European Unionøs Foreign Trade Association (EUFTA), the European Services Forum (ESF), the Union of Industrial and Employersø Confederations of Europe (UNICE), the International Organization of Employers (IOE), and the World Business Council for Sustainable Development (WBCSD). As MNCs control two-thirds of international trade, they are the major beneficiaries of WTO rules. Encouraged by MNCs, the WTO, however, is not limited to international trade and increasingly covers international investment rules.

The ICC foresees a growing agenda for the WTO since it is no longer sufficient to focus on barriers to "trade", in its traditional sense, as the primary impediments to doing business across frontiers. The emphasis today must be on a wider conception of market access - on the international rules for doing business on a global scale. The ICC urged the first Ministerial Conference of the WTO to aim at building a solid consensus for work to begin within the WTO to establish a truly global framework of rules and disciplines to govern cross-border direct investment. (ICC, 1997).

The WTO agreements which were established during the Uruguay Round of (GATT) trade negotiations (1986-1993) such as Trade-Related Investment Measures (TRIMs), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and The General Agreement on Trade and Services (GATS) are powerful instruments to promote MNCsø interests and limit the ability of nation states to manage their economies.

In 1997, OECD governments negotiated a Multilateral Agreement on Investment (MAI), which aimed at removing the remaining restrictions on foreign investment. The MAI was an attempt to establish the absolute domination of MNCs over states, which was defeated in 1998 as a result of worldwide mass protests. Renato Ruggiero, the Director-General of the WTO, in an October 1996 speech presented to the UN Committee on Trade and Development said ÷we are no longer writing the rules of interaction among separate national economies. We are writing the constitution of a single global economyø (UNCTAD, 1996).

The MAI included not only FDI but also intellectual property and portfolio investment. The agreement would have given MNCsø extraordinary rights over governments including protection against social unrest and the ability to take states to an international court. Clearly, MAI represented an attempt to create a world governed by, and for, MNCs. MNCs and their representatives were obviously behind the proposal. The ICC for example stated that, The ICC calls upon the G7 governments to take the lead to ensure that the MAI negotiations are concluded as soon as possible and to reject pressures to link the Agreement with environmental and labor standards. Most of the problems addressed under the agreement occur outside the OECD membership. It is thus crucial that as many non-OECD countries as possible accede to the agreement. (ICC, 1997).

Although the MAI was defeated in 1998, it would be too naïve to assume that what MAI intended to achieve is off the agenda. Many writers believe that developments included in existing agreements, particularly TRIMS, are attempts to resurrect MAI. There is little doubt that MNCs will keep on working until they achieve the complete liberalization of world markets which will allow them to expand their business. The WTO rules go far beyond mere liberalization. They aim to restructure the whole world economy in line with the demands of MNCs.

The ÷tendency of concentration and centralization of capitalø argument employed by Marx implies that one can only expect a few large MNCs to increase their domination over world markets. As the size and power of MNCs increase, their ability to influence policies at national and international levels also increase. Economic power always brings some degree of political power. Through lobbying or other practices, governments have to take big business into account when they formulate their economic policies. It is not a secret that in many countries, large companies make substantial donations to political parties and often use illegitimate strategies such as bribery, and support for oppressive regimes.

The above arguments may explain the nature of globalization as a contemporary phenomenon. The difference between the old internationalization process, which was mainly based on international trade, and the current internationalization process, which is based on FDI, is substantial. Although internationalization through trade integration can be managed by the nation states, internationalization through FDI requires supranational states. Earlier internationalization required larger markets, which could be achieved through colonization. Production was done locally and goods were traded internationally. The new process of internationalization, however, requires world markets to be integrated
into larger entities. This is achieved by creating supranational states, particularly through regional integration activities.

The Concept of State and the Process of Globalization

The concept of the state is at the heart of the globalization debate. The role of the state can be approached from two broad perspectives. One is concerned with the effectiveness and the power of the nation state in the management of economy. The discussions between neo-classical and structuralist scholars have traditionally been based on this criterion. Many hyper-globalists insist that the power of global capital undermines monetary and fiscal policies and forces all governments to adopt similar neo-liberal policies. With national economies more open than ever, governments seem to have lost control over their economies and have less ability to pursue independent economic policies. The skeptics contested these ideas by

arguing that ÷the problem with ÷powerlessnessø argument is not that it is wrong about the new constraints on government capacity to make and implement policy.

It is the assumption that such constraints are absolute rather than relative; rather than an evolving history of state adaptation to both external and internal challenges (Weiss, 1997: 13). The trouble with this debate is that it isolates the nation state from its social and historical context, and relies on purely technical arguments. In this sense the logic of both positions are very similar. Both views are based on the state versus market dichotomy and both views see the relationship between the market and the state as a power struggle to dominate each other. Thus, a weakening role for the nation state represents a defeat on the part of state in its struggle against market forces. The core of this debate is, then, whether the nation state is actually losing this struggle (Scholte, 2000, 2002).

The alternative political economy approach claims that the ÷state versus marketø debate is irrelevant to globalization and economists on both sides display an inaccurate understanding of the concept of state. In this view the functions of the capitalist state are determined by the need to accumulate capital and to control the pursuant class struggle that represents the conflict between capital and labor, and to regulate the competing interests of capital. ÷The primary function of the state in general is to guarantee the reproduction of capitalist social relations - relations which pertain to the existence of capital-in-generalø (Fine and Harris, 1979: 146). This view of the state provides a powerful device to the understanding of the structural changes the world economy is going through, and the new forms of state structures that are associated with it.

It is clear that at certain points in history one can identify different types of state and different degrees of state intervention, which are determined by a complex set of influences. For example, while the period after the Second World War can be characterized by the increasing internationalization of productive capital; strengthening of the labor movements and the increased role of the nation state in economic management, the periods after the 1980s are characterized by an erosion in the role of the national state; disempowerment of the labor movements and a drastic increase in the internationalization of productive and financial capital (Ezeanyika, 2008). In the words of Hirst and Thompson (1996: 123), ÷the relative internationalization of economic relations since the 1970s has appeared to strengthen the economic liberalsø case, giving rise to the widespread belief that global markets are ungovernable. This is far from being the case, and, even in a period of economic liberal ideological dominance, structures of market regulation have been built up or maintained at the international level.

The idea behind this argument is the possibility of transferring part of the nation stateøs functions to other supranational state bodies. In other words, although the nation states may be declining in their power/role in managing their domestic economies, new types of supranational states are being created by the dynamics of this new capital accumulation process. Hirst and Thompson (1996) identify five levels of economic governance in the international economy:

1. Governance through agreement between the major nation states, particularly the G3 (Europe, Japan and North America);
2. Governance through a substantial number of states creating international regulatory agencies for some specific dimension of economic activity, such as the WTO to police the GATT settlement;

3. Governance of large economic areas by trade and investment blocs such as the EU or NAFTA;
4. Governance through national-level policies that balance cooperation and competition between firms and the major social interests;
5. Governance through regional-level policies.

Supranational States Organizations

The debate on the possibility that internationalization may weaken the nation state as an institution is not new. A number of writers have analyzed this issue from a political economy point of view (Murray, 1971; Warren, 1971; Rowthorn, 1971; Poulantaz, 1975; Fine & Harris, 1979). Although there are important theoretical differences between them regarding the nature and functions of the state (and nation state), there is a broad consensus that the nation state may lose/transfer some of its functions to other forms of supranational states and thus there might be a reduction in its power/role to implement independent national policies. As it was noted earlier, the nation- states, particularly in developed countries, are an integral part of this process. They are the facilitators, rather than the victims. They do respond to the needs of the capital accumulation process and do what is required to guarantee the reproduction of capitalist social relations in a changing environment by creating supranational states and transferring significant powers. Therefore this approach radically differs from both hyper-globalists and skeptics.

There are two important objectives behind the formation of these supranational state apparatuses. One is political and the other is more technical. The political one is related to the national class structure, which is also carried through to an international domain by the internationalization of capital, which reflects the struggle between workers and international capital, and the struggle between different segments of capital. Given that the nation state fulfils the fundamental role of guaranteeing social reproduction, an international state system may also perform a similar function for the resolution of international rivalries by organizing cooperation to moderate the effects of the increased competition provoked by internationalization. -In addition the working classes of all national states can be disciplined and moderated in class struggle by the economic control exercised by those bodies, a control that is remote from the struggles at the point of productionø (Fine and Harris, 1979: 153). There is, then, an important incentive for international capital to create these supranational states, in as much as their inner-rivalries allow.

The technical objective is related but separate to the political one. As the ICC (1997) states, governments and business must work more closely together, at national and international level, to design the multilateral rules for the worldwide marketplace which will be increasingly necessary for the smooth functioning and good management of globalization. Globalization is a business-driven phenomenon, and business has now become a natural partner of governments to help them in this task.

Whether it takes the form of trade or FDI, international economic integration is not as a result of individual actions of firms and firms neither individually nor collectively can manage all the consequences of this dynamic process (Kozul-Wright, 1995, 2002). Since not all parties benefit equally, the integration process has always been a matter of rivalry that seeks a resolution through negotiation, consensus building, cooperation, compliance and intimidation in varying degrees. Internationalization has always been a regulated process. Market economies need to be appropriately governed if they are to perform effectively in

meeting the substantive expectations of a wide range of economic actors (Hirst & Thompson, 1996). Thus, appropriate rules and regulations must be established to manage this complicated process.

It is suggested that supervisory authorities should be created to ensure that the process of international integration is managed effectively. Ideally, the spread of TNCs needs to be matted by transnational state structures (Kozul-Wright, 1995: 138, 2002). The creation of such institutions is also necessary to reduce transaction costs and to coordinate cross-border activity.

As noted earlier, neither internationalization nor globalization needs to be liberal processes. Many writers have rightly argued that the internationalization of capital does not necessarily require an association with liberalization. Liberalization of trade, for example, may in fact stall the internationalization process by creating economic, political and social crisis. On the other hand, as some of the East Asian countries have undeniably demonstrated, it is possible to stimulate exports through state intervention. Bairock and Wright (1996) argued that before the First World War, trade liberalization was not a major factor in the internationalization process. In fact, ÷rapid export growth in this period occurred against a tide of rising protectionø (Bairock & Wright (1996: 20).

Furthermore Cameron (1978) and Rodrik (1996, 2007, 2008) affirm a positive correlation between the trade ratio and the size of government in economic activity. It is postulated that a look at the nations that have been most economically successful over the last thirty years suggests that high stateness may even be a competitive advantage in a globalized economy (Evans, 1995, 1997, 2009). The same logic is applicable to globalization. For example, if one takes the EU as a ÷miniatureø form of globalization; it is obvious that the nation states in the EU have lost/transferred considerable power as a result of the integration process.

Particularly in the wake of monetary unification, the nation stateøs power to implement independent monetary and fiscal policies has been reduced substantially. This reduction of power, however, does not necessarily imply liberalization. As the role of the nation state declines in the EU, another super state is being created. It is obvious that the EU does not inevitably require liberalization and it can implement interventionist, or even socialist economic and social policies. Thus, as long as the relevant international state structures are created, globalization does not necessarily require liberalization. The reason why liberalization is perceived in association with internationalization is the fact that the best established effective argument for governed and socially embedded markets, the theory of the ÷mixed economyø, was developed for national-level economic management. We need a new equivalent type of theory which recognizes that many aspects of economic activity are no longer under direct national control and that a changed international environment needs new strategies and institutions (Hirst & Thompson, 1996: 123).

The liberal ideology plays an important role in this process. There is an obvious relationship between the structural changes in the world economy, domestic and international class relationships and the dominant ideologies that were produced to support them. From this angle the recent rise of the anti-state ideology should be put in perspective. Economic theories are ideological constructions and their popularity is determined by the dominant processes of capital accumulation. The debates over the role of state, and namely if the state (or how much state) is required to facilitate economic development, cannot be reduced to a technical issue. Thus, the recent popularity of neoclassical economics should be approached from the

viewpoint of its ideological base, rather than its intellectual superiority over the alternative structuralist and political economy perspectives.

Globalization should be seen as an uneven process through time and space. Through time, as a complex process, globalization will be unlikely to make continuous progress but will experience many upswings and setbacks. It is obvious that the creation of supranational states is not a simple matter since ÷international capitaløis not a homogenous category and the divergent interests and power structures that characterize the international economy are absorbed into the political struggle in the process of constructing such institutions. However, the destructive nature of this struggle itself necessitates and facilitates this process. For example recent USA policies, although damaging to globalization process, may be seen as temporary setbacks.

In the same manner globalization is an uneven process through space as not all countries influence or is influenced by the globalization process uniformly. Nation states represent different segments of international capital as a truly transnational capital yet does not exist. Therefore countries continuously reposition themselves and revise their policies in the light of internal and external circumstances. The discrepancy between developed, developing and underdeveloped countries is particularly worth emphasizing. Developed countries, which account for most international capital, are active and leading participants in this process, whereas the states of developing and underdeveloped countries, perhaps with the exception of large and powerful countries such as China, India and Russia, are integrated into a process over which they have very little control.

Most developing and underdeveloped countries are marginalized and disadvantaged in this process as they have lost considerable power over their own economies. For example, the rules of WTO and policies of the Bretton Woods institutions prevent them from implementing the industrial policies that all todayøs developed countries employed in their earlier development processes without restrictions.

Concluding Remarks

Arguably the internationalization of capital is predominantly a technical process whereas liberalization is predominantly a political one. As we argued earlier, a separation of these two developments is essential to understanding the nature of globalization process, particularly what is permanent and what is temporary. The internationalization of capital is a permanent feature of capitalism and expected to continue, unless there are extraordinary events like world wars and/or severe international crises. Such processes cannot be reverted as such, as they are not projects conceived, planned and implemented at the level of intentionality, but they can be influenced, redirected, and transcended.

The big international capital insists on being free to operate on a world stage and prefers a liberal globalization process. Through a liberal globalization process, international capital increases its bargaining power over popular classes worldwide. The future of the liberalization process, however, will be determined politically by the ability of its opponents to take up this new challenge and organize themselves nationally as well as internationally. It has long been argued that the policies of the nation state are in general determined by the internal forces generated by class struggle and external forces imposed by international capital and class antagonism on a world scale. What is new in this process, however, is that as its volume and mobility grows, capital increasingly engages in production on an international scale and enjoys an unprecedented structural power, while labor stays predominantly within

national borders. The marginalization of the working classes and their political organizations can partially be explained by this phenomenon.

There is no doubt that the creation of supranational states has been initiated by, and serves the interest of international capital. The same supranational states, however, create opportunities for the poor and oppressed people of the world to engage in the political process more effectively. There is a need for progressive forces to try to influence the policies of supranational states. Such strategies could take many different forms. Although some ÷anti-globalizationø movements have already emerged, the labor movement has been slow in taking up this new challenge. Nevertheless there are encouraging signs. For example the collapse of WTO talks in Cancun due to resistance by developing countries, could be considered as symbolic and an important victory for them. Civil initiatives such as the World Social Forum are promising developments in the opposition to neo-liberalism and the domination of the world by powerful companies. Regional integration could potentially be a way to regain policy autonomy for developing and underdeveloped countries from multilateral organizations.

The same logic can be extended and interpreted more widely for developed countries as well. Through regional integration or by the formation of other supranational states, populations in developed countries can also regain policy autonomy from international capital through working class struggle. Initiatives like the UNøs Global Compact, although it has failed to become a code of conduct, could be a useful device to control and limit the damaging impact of MNCs. Increased international cooperation and even the unification of trade unions, for example throughout the EU, could potentially provide an important power base to counter the influence of MNCs. In other words, the ability of the labor movement to influence supranational state policies will be determined by its ability to organize itself internationally.

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