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Transnational corporations and internationalization of capital: an historical perspective

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Introduction and Objectives

The concept of Globalization has engaged the attention of academics, politicians, management gurus and common citizens. The idiom, which has a geographic characterization, expresses the expansion and the interconnection of economic processes, of governance structures, of movements and circulation of commodities, people and capital across spaces. The "globalization" of economic activity is often thought to have appeared only after World War II, an era, it raises, marked by the emergence of TNCs as the main actors of economic development and the growth of international trade. The term globalization suggests a quantum leap beyond previous internationalization moments. It is surrounded by claims of disappearing borders, or the claim of the death of geography (O'Brien, 1993), and contains strong rhetorical and ideological overtones as the assertions of the end of the history (Fukuyama, 1992). "Globalization" is described as a new process driven by major technological advances in the transmission, storage and processing of information. As critics of the notion have underlined, however, the newness of the railroad, the steamship and the automobile, of the telegraph, the radio and the telephone in their days was no less impressive than the information revolution is today (Harvey, 2003). Even the so called "virtualization of the economic activity" is not as new as it may appear at first sight. A world encompassing economy sharing close to real time transmission of information came first into existence not in contemporary times but in the 1870s, when a system of submarine telegraph cables began to integrate financial and other major markets across the world in a way not different from today's satellite market (Hirst and Thomson, 1996). The spread and density of global networks of transport and communication are of course much greater today than in the past. However, only in the 1990s has the degree of mutual interpenetration of world's national markets through trade, production, investments, borrowing and lending begun to approach the standards obtained at the beginning of the century (Hirst and Thomson, 1996).

Like a misleading statistic projection, based on an uncorrected extrapolation from the peak of a cycle, globalization theory is doomed to misinterpret and misread the nature, the direction, and the momentum of this historical process. The hypotheses they formulate do not stand up to historico-empirical scrutiny and even worse prevent us from getting at the heart of capitalist dynamics, both past and present. In this work we will try to understand what is truly new in the present wave of globalization in comparison with earlier waves and whether genuine novelties, if any, change the way of functioning of capitalism on a world scale and the dialectic between state and capital.

In this work we intend to scrutinize the main periods of internationalization of economic activity using a long historical perspective. The historicization of the analysis about the emergence of the modern state system and the global world market seem to be a relevant starting point. One of the most useful attempts to explain the internationalization of economic activity is based on the concepts of the circuit of capital. This conception is embedded within Marx conceptualization of the capitalist system as a whole which was perceived to be emerged in the 16th century. According to Marx analysis of *Capital*, expansion and accumulation of capital and unlimited appropriation of abstract wealth are the sole motive of the capitalist. The analysis of capitalist development has to proceed from the process of expansion and accumulation of capital and its determinants, i.e. its exigencies, opportunity and obstacles, and not from the development of wage/labour/capital relation or from the development of the forces of production which represent particular means, albeit decisive under specific conditions, among the others to secure capital expansion and accumulation at particular times in determined spaces (Frobel, Heinrichs, Kreye, 1977). Our aim is to define the logic of the process of internationalization of capital, which forces, political and economic, were behind this process and which relation was at the base of the interaction between state and capital. Under this framework, we will address our attention to the different forms of international business enterprises, starting from the role of primogenitures of the contemporary TNCs, the chartered companies of the seventeenth century and eighteenth century, and their role in shaping the pattern of internationalization of capital. Since large international corporations, like Hudson Bay Company and the East India Company, which engaged in trade with Asia and Africa were in existence as far back as the end of the 19th century (Hymer, 1972: 40), we aim to trace the lines of historical endurance and change in the pattern of the organization of the accumulation of capital on a global scale. We intend to explore which economic and political needs they fulfil, what forces lied behind them and what pattern of organization they developed, what changes have been experienced in their structures and what different fractions of capital were involved.

The historical development of the capitalist world economy and its stages, if acknowledged at all, can be described in widely different ways. It depends on one's interpretation of the determinant factors in development and the qualitative characteristics of international capitalist relations.

The vastness and complexity of the analysis needs to be supplemented by some lenses or filters, in other words, interpretative categories through which the problem of periodizing the history is disentangled. Our methodological choice to understand the process of internationalization of capital in its extensive, i.e. in the geographical expansion toward a world system, and intensive dynamics, i.e. the socialization of the forces of production, is to analyze it within the framework of the three hegemonic cycles of historical capitalism.

The concept of social hegemony, used by Gramsci to define the relation between social classes within the state and to denote not only the pure domination but also the "moral and intellectual leadership" (Gransci, 1975: 57-58), has been transposed by some scholars on the inter-state relations (Arrighi, 1982; Cox, 1983). They argued that the history of capitalism has displayed cyclical sequences of internationalization of capital and of emergence of dominant states (Arrighi, 1994; Hopkins and Wallerstein 1979; Modelsky and Thomson; Gilpin, 1975).

We will use the concept of hegemony to denote the power of a state to exert function of leadership and rule, coercion and consensus on the system of sovereign states.

The hegemonic cycle describes the rise and decline of hegemonic states in agro-industrial, commercial and financial areas. Wallerstein defined hegemony as "that short interval in which there is a *simultaneous* advantage in all of three domains" (Wallerstein, 1984: 41). Hegemons face the task of integrating competitors and potential competing states, as well as peripheral regions, into an international economic setting that would sustain their hegemonic position. One major element in this setting will be to liberalize international trade flows. On the base of its productive edges and its commercial superiority a hegemon will be interested in opening routes. In this sense government and companies of hegemonic states require theoretical constructions that legitimize their international expansion and that stress the virtue of free international trade.

We will start our analysis from mercantile period, which Marx stressed as an important moment in paving the way for the emergence of the modern industrial capitalism: "the discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of aboriginal population, the beginning of conquest and looting of the East Indies signalized the rosy dawn of the era of capitalist production" (Marx, 1974: 751).

Dutch hegemony and the Chartered Companies

In the context of capitalism development in the mercantilist era we will analyze the role of leadership and governance of the Dutch hegemony. To the end of our analysis it is important defining the organizational structures, political and economic, through which every hegemony has defined its leading role in the development of the capitalist world economy. With the Peace of Westfalia in 1648 the Dutch proposals for an inclusive reorganization of the political and economic space took place. This new system rested on an international law and "balance of power" which structures operated between states not above them. At a time when United Provinces arose to a position of dominance in world trade, the Dutch scholar Grotius developed his legal doctrine declaring the freedom of the world oceans. Under this politico-ideological umbrella many agreements aimed to abolish the previous protectionist intentions and to re-establish the freedom of the trade had been concorded, the "threads of diplomacy [came to be] woven and unwoven at the Hague" (Braudel, 1984: 203). The substantial freedom accorded to the private initiative, even in war time, to organize commerce peacefully across political borders and jurisdictions guaranteed important sources of military supplying and foodstuffs that in turn forwarded the territorial expansion of the sovereign state and the particular interests of the Dutch capitalist oligarchy for an unfettered accumulation of capital (Arrighi, 1994: 44).

This reorganization of the political space in the interest of capital accumulation marks the emergence of a modern inter-state system and the dawn of the capitalism as a world system (Arrighi, 1993). In virtue of its maritime and colonial empire huge flows of commercial and financial revenues sustained the wealth and power of the Dutch.

The structure of the system of control and management deployed was based on the instauration and on the control of dense networks of commercial exchanges, on the management of considerable monetary liquidities in search for profitable investments in commercial enterprises or in the flowering Amsterdam Stock Exchange and on the undisputed superiority, brutality of its maritime army and of its systems of coercion. (Braudel, 1982: 449-450)

The United Provinces, created from the alliance between Dutch merchants and the house of Orange, combined the capability of intermediation of merchants and financiers and the power of political and military management of the state, imposing their commercial monopoly. The centralization of the exchange of goods and finance transformed Amsterdam in the centre of the global trade and in the main monetary market of capital in the world economy (Israel, 1989).

The Dutch expansion first fastened around Europe thanks to the predominance in the Baltic trade then extended throughout the world. The strategies of centralization of the exchanges and of control of finance could not let "take off" the virtuous circle of accumulation without the operation of the big joint stock the chartered companies, who were granted commercial and military privileges to exert war-making and state-making activities.

The Dutch East India Company, VOC to use the Dutch acronym, which was created in 1602, represented the epicentre of the functioning of the whole mechanism of accumulation: for several years the VOC posted annually dividends of 18% (Robertson, 2004: 91).

It was accorded vast commercial, military and political powers, even though was subject to constant supervision and periodic renewal of its charter by the States General (Israel, 1989: 70-71). It benefited from the centralization of exchange and finance and acted as a filter which channelled the revenues of the extraction and exchange of resources towards the banks of the financial oligopolies of the Dutch.

The charter not only focused on the chance to create profitable investment for investors in the East India traffic. It aimed to attack the power and revenues of other commercial rivals in Asia, Spain and Portugal. The chartered companies flourished not only under the Dutch, the East India British Company, the Hudson Bay Company, the Royal African Company were in existence in the same period. They were able to reinforce the commercial linkages with the world and thus created a stable relation between the producers and the Dutch *entrepot*, transforming the Dutch capitalist merchant class in the main and the only intermediary, the middle men, between the supply and the demand of fundamental and highly retributive commodities, like "slaves", iron, spices, mace, grain, naval stores, cloves, etc. Their activity included the creations of fortified points of shipment around the world from Cape Town to Jakarta, form Pernabuco in Brazil to New Amsterdam in North America. The chartered companies specialized territorially to the exclusion of other similar organizations. These companies individually and collectively played a key roe in consolidating and expanding the territorial scope and exclusiveness of state patronage over non-Western areas.

They established factories in East Asia, Ceylon and Taiwan and traded successfully with Japan (Caffermann, Cooke, 2001). These commercial international enterprises, which trading and financial activities came to direct and regulate an increasing part of the production of goods and services on a global scale, have been described as the pure forms of the international primitive accumulation (Palloix, 1977: 101).

This era was characterized by the dominance and expanding activity of merchant capital, which played a decisive role in the external accumulation of capital, i.e. from extra national sources.

Starting the process of primitive accumulation abroad through the separation, in embryo, of the producers from their means of production, i. e. the land the activities of merchant capital started the process of expropriation and commercialization of land and labour since the networks trade tended to assume a capitalist character. It also served in the preparation and organization of the first international division of labour, which only fully unfolded in later development of capitalism.

It reduced foreign people to slavery, in the heyday of the hunt for surplus value, a search that was increasingly gaining ground within other, disintegrating societies. So the activity of merchant capital was directed toward foreign countries form the outset. Economic motives were at the base for open cruelty, robbery, plunder and genocide of early capitalism (Williams, 1964).

The accumulation process of merchant capital manifested in the form M-C-M_1. This form expresses the circuit of accumulation of capital where M, money, flows increasingly in the form of commodities which must be sold in order to rise the value of M to M_1 and earn profits. The principle on which this process was based was the so-called "buying cheap and selling dear".

The power of merchant capitalists was strictly intertwined with the political sovereignty of the absolutist state: the kings based their power on the ability to tax the merchants while these in turn depended upon kings for military and judicial protection.

Indeed Dutch hegemony uniqueness should not only be understood according the role of entrepot that Dutch played as a hub of the world economy, indeed it should be traced back also to the Dutch productive efficiency, which is the superiority in certain areas of agriculture and fisheries as well as of industry: the Dutch enjoyed an overwhelming quantitative and qualitative advantage in timber-sawing and shipbuilding (Wallerstein, 1982: 98-100).

In an era where the production was not yet the drive for capitalist accumulation, the monetarization of the social surplus, in the form of money capital, facilitated to grasp huge political and economic benefits. The Dutch society was not a democratic one but it was tolerant and attracted people with skills and money that were persecuted elsewhere, giving them the opportunity to invest in enterprises that minimized the risk or gave access to low interest rates in credit activities.

The strategy of the VOC of internalization of the security costs, allowed the minimisation of cost of shipment, thanks to the monopolistic position they assumed and to the access to constant supply of goods at favourable prices.

In this way the merchant elites where able to replicate in the world what they had previously created in Europe thanks to the control of the Baltic trade, economizing on the security costs and creating a safer network of communication and exchanges world wide. As we have seen through the analysis of the international commercial firms, this era shows an undistinguished border between the role of business making activities and state-and-war making activities. It seems evident that power and wealth creation were two coexistent processes, interrelated and mutually reinforcing since the origins of capitalism. In fact joint stock chartered companies were half-business and half-governmental which specialized territorially in the monopolization of commercial opportunities on behalf of the governments that had chartered them. They depended for their existence on exclusive trading privileges granted by their metropolitan powers. The substitution of the Dutch hegemony should have had to occur through an ideological, political and economic reformulation of these structures of dominium.

The industrial capitalism of British Hegemony.

The transition from Dutch rule manifested in the dispossession of the superiority on the commercial sphere, even though it was still retained, in coexistence with the emergence of British rule, in the financial realm. For Braudel this was a "sign of the autumn" of the economic cycle, that is a moment in which the competition of other states in the commercial sphere increases and the margins of profitability fall, capitalist development announces its maturity (Braudel, 1984: 246). The Dutch capitalist class, thus retires or better specializes in the financial realm where the greater profitability is assured by an increasing competition for monetary liquidity. The opening of the commercial routes had the consequence in the middle-long run to increase the competition and to slow down the margins of profitability (Arrighi, 1994). The *late comers* (France and Britain) had to change radically the political geography of the world trade in order to overcome the Dutch. The centre of this strategy was the adoption of direct forms of colonization. Thanks to much more great political-military organization than the proto-national Dutch state, the European states could undertake vast operation of colonial conquest and embark on vast extraction of mineral resources, raw materials, primary commodities and labour force all over the world (Rodney, 1974). The state assumed a more important role as an instrument of capitalism. Its primary economic functions are to guarantee the property rights that are backed by the force of law and repression, a much bigger involvement in the economic orchestration, the regulation of business cycles and economic planning and input provision as labour, land, capital and technology (Murray, 1971). The state thus has some economic functions which it will always perform, though in different forms and to different extent. The Dutch strategy to create ports of docking and replenishments was substituted with more pervasive forms of political and economic penetration and control through the colonial administrations which tended to consolidate the British imperial power.

As a response to the exigencies of Western societies in a phase of new political and economic expansion and technological competition, on the basis of an ineluctable belief in the beneficial potentialities of the free trade, enhanced by Ricardo's comparative cost advantages, the spur for the control of areas of influence, of strategic resources and commercial networks grew rapidly.

This so called free trade was declared and imposed *unilaterally* upon other countries but was hardly practiced by those leading countries in their own markets. A big shift was represented by the shift in the structure of the international trade since it was no more oriented towards luxuries and precious metal rather it involved those essential goods, mainly primary goods, which metropolitan capital now demanded (Szentes, 1988: 38).

Whereas the Dutch intermediation was first of all a commercial one, the British intermediation was of industrial character, it became the "workshop of the world". England had been for long one of the main industrial centres of the European world economy. Indeed until the Dutch remained the centre of European trade, England could hardly mobilize their industrial capabilities as an instrument for the national growth. Only during the half of the 18th century the expansion of the trade and the British commercial intermediation, and the huge governmental expenses for Napoleonic wars transformed the industrial English capabilities into a dynamic instrument for wealth accumulation. In consequence of the exponential growth of the national debt and public expenses, the British capital goods industry, the iron industry particularly, acquired huge capabilities which created the pre-conditions for the development of shipbuilding and railways. The simultaneous expansion of the mechanization of the textile industry transformed the capital goods industry in the driving force for the capitalist expansion. Internationally, the development of machinofacture made British domestic economy not only dependent on exports but also on foreign sources for essential supplies (Hobsbawm, 1975). For the first time in British history an industry vital for exports and domestic employment came to depend on foreign raw materials, the cotton.

The liberal crusade on behalf of free markets in the thirties of the 19th century created a legislative framework which forwarded the unrestricted movements of capital and goods: the Poor Law Amendment Act in 1834, the Anti Corn Law Bill in 1846 and the repeal of Navigation Act in 1848-49 (Radice, 2001).

The preconditions for further expansion of capital and the chances to establish commercial monopolies enhanced. Between 1845 and1873 the production of iron and steel tripled, the machineries decupled, the history experienced its biggest phase of material expansion during which considerable flows of capital were converted into commodities (Hobsbawm, 1975). In this phase the circuit of accumulation of capital assume the form of M-C-..P…C_1 ..M_1. The productive moment, pushed by the Industrial revolution and its relative needs of a free labour force, to be eventually and unevenly proletarianized, assumes the centrality in the overall pattern of accumulation.

The expansion of British capitalism needed new forms of colonial expansion not only to bring in material resources (mineral, agricultural) to sustain the process of accumulation but also to open new markets for British commodities. The leading features of the 19th century capitalism as the first true simultaneous process of the internationalization of production, trade and finance, are best epitomised in the words of Karl Marx: "The need of a constantly expanding market…chases the bourgeoisie over the whole surface of the globe…All established national industries are dislodged by new industries… that no longer work up indigenous raw material, but raw materials drawn from the remotest zones; industries whose products are consumed not only at home but in every quarter of the globe…The bourgeoisie with the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all nations into civilization" (Marx, 1967: 14-15).

The instruments for the perpetual extraction of mineral, energetic resources, tributes in money, in kind and regimes of forced labour were the bureaucratic and military machines of colonial administrations. Indeed they not only developed privileged and stock-holder companies rather they made huge concessions of land to private people or private enterprises (Wolpe, 1980). The direct colonialism consented to use a great mass of unskilled labour force, previously autonomous producers who were mainly rural peasants, eliminating the constraints to the maximization of the productive forces of the colonies. This incessant mechanism of accumulation by dispossession (Harvey, 1982) repatriated continuous flow of monetary surplus which reinforced the role of the English bankers as the financiers of the capitalist system, pivoted around the role of the sterling as a currency of reference, and constituted the precondition for further investment in the commercial as in the productive sphere.

London had taken over the role of central money market of the growing world economy from Amsterdam, the flow of income from abroad, from the colonies mainly from India, had been supplemented by a significant inflow of foreign surplus capital seeking investment through the City (Pollard, 1985). The increase in the territorial inclination of the European countries at the beginning of the 19 the century has been confirmed and sharpened by the analysis of Magdoff according to which western states owned 55% of the surface of the globe in the 1800, the 66% in the 1878, the 85% in 1914 (Magdoff, 1978, 29-30). The territorial annexation constituted the necessary conditions for the reduction of the risks in foreign direct investment that flowed from the City towards the world (Barrat Brown, 1975: 133-136). By becoming the leading financial and commercial *entrepot* of the world the British state created unique opportunities for businesses established in metropolitan countries to specialize in high value added activities, providing access to the cheapest inputs from anywhere in the world and disposing of output everywhere in the market where they happened to fetch the highest prices.

Colonial investments in this case should be considered as the true precursors of foreign direct investment. The main agents that received the vast sums of investment were the joint stock companies which were granted by the colonial governments unlimited rights of exploitation of the land and subsoil, sometimes on entire regions as in the case of Cecil Rhodes Consolidated Company, which obtained the right to exploit monopolistically the diamonds of South Africa and later the gold of Rhodesia. Companies like De Beers, British South Africa Company acted as catalyst of exceeding capital investment and multiplier of the nominal value of the shares of the companies which were enlisted in the London Stock Exchange as their profitability increased, stimulating at the same time the trans-nationalization of capital (Arrighi, Saul, 1972). Here the pre-eminence of British firms as multinational producers becomes apparent.

The foreign investments indeed were not only "resources-seeking", i.e. oriented to the exploitation of natural resources, mineral and other raw materials products, rather technical and organizational development after the 1870's allowed a variety of similar products to be produced domestically as abroad within the internal division of the labour of the firm (Dunning, 1993, chap. 5).

Even though the spatial scope of the investments increased, the character of the production processes they engendered were essentially labour-intensive, i.e., based on high supply of cheap and unskilled labour force and low capital intensity.

British state acquired enhanced means of influencing technological innovation, employment, investment, and supplies of money by acting to monitor and control the accumulation, movement, and transfer of capital, goods, persons and ideas within and across the national frontiers. British regime of accumulation in its domestic, foreign and colonial ramifications should be conceived as a single system of flexible specialization, formed through the vertical fission of processes of production and exchange (Arrighi, 1994, 284-285). In other words, it internalized the costs of production, which is that production activities were brought within the organizational domain of capitalist enterprises. While the activities of the joint stock chartered companies which involved long-distance trade kept production outside their organizational domains, the form of the accumulation during British hegemony came to be pivoted on capitalist enterprises that were heavily involved in the territorial organization and rationalization of production processes. This is not to say that production and trade must be taken separately rather it wants to stress the idea that these components are strictly interconnected in the circuit of accumulation of capital, to some extent there could not be trade without some sorts of involvement in the production realm as some capitalist organizations that specialized in long-distance trade experienced. The relationship is dialectical not exclusive, as is shown in the coexistence of the two component in the overall imperial British strategy, while in the mercantilist period the production was determined by the exigencies of merchant capital in this phase industrial capital organized the extensive activity of capital accumulation. The British Empire encompassed in its borders the unequal division of labour between industry and agriculture (Radice, 2001). The international organization of the division of labour came to be increasingly structured on the axis centre-periphery (Szentes, 1988). The profitability of its constituent units depended thus critically on the control of liquidity, the markets and the material supplies. The period was experiencing a big international inter-capitalist competition since the process of centralization of capital that emerged as a feature that has characterized the accumulation process was driving increasingly towards a world wide inter-imperialist competition. The imperialism of free trade as it has been defined came to be defied by the substantial emergence of nationalist/imperialist projects (US and Germany) which augmented the cost of protection of the British Empire. The *scramble* for Africa testified the increasing exigencies of defining new areas of influence for industrial and imperialist expansion as a consequence of the Great Depression. The drastic deflation in the memory of man between 1973-96 (Radcliffe, 1980).

Lenin had foreseen this exponential push of inter-imperialist rivalries in his work on Imperialism, foreseeing the crises of the two world wars. It conceived it as the climax of international competition between capitalist monopolies, whereas the fusion of banking capital with industrial capita created a new category finance capital (Lenin, 1971). As we have seen this is not a peculiar feature of this period rather what seems important in Lenin analysis is its characterization of the concentration and centralization of business activity. The international firms assume the forms of cartels and trusts, in defining new integrated and finance-driven patterns of internationalization of production. Lenin's theory of imperialism also included the concept of centre-periphery relationship, a dichotomy between a dominant centre and an economically dependent and exploited periphery. Indeed the Edwardian Era, *la bell'epoque* of capital of the beginning of the century testified that despite monitory Marxist references to the last stage of capitalism, the flexibility, the adaptability and the eclecticism of capital had provided space of manoeuvring that allowed capitalists to divert capital from unprofitable and saturated niches or sectors of market to profitable ones. In 1914, UK investors still dominated 45% of all stock of foreign direct investments (Dunning, 1993: 117). Rather than the last stage of capitalism these turbulences signalled the end of the British hegemonic cycle. The abandonment of the international monetary system in the 1930s which was pivoted on the role of the sterling as a currency of exchange, the emergence of United States and Germany as industrial powers, countries with a much more ample industrial capability, the expanding debts of British Empires followed WWII, covered only by borrowing on the Chicago and New York markets, gave way to the demise of British hegemony, and the emergence of a new hegemon, the USA (Polany, 1974).

TNCs and US hegemonic cycle

When the global market pivoted on Great Britain felt down in the thirties, in consequence of the international financial crises (the demise of the gold-standard sterling), the global capital, to use Hobsbawm's words, "retreated in the igloos of nation states economies and their associated empires" (Hobsbawm, 1991). At the dawn of WWII, there was no global market to speak of.

United States emerged from the inter-war period as the hegemon state. The judicial, political, economic and military foundations of the new world order can be so summarized: at Bretton Woods new institutions - FMI and World Bank – were set up to grant monetary stability and financial liquidity around the new dominant position of the dollar; at San Francisco new norms and rules were laid out in the charter of United Nations for the legitimization of state making and war-making; at Hiroshima and

Nagasaki the United States paraded their military superiority through new means of mass destruction; a new trade regime was established under the political umbrella of GATT.

The preconditions to rebuild the foundations of a global market, which now centred on United States, had been established. All these institutions intended to reconstitute a world market and its rules under the US hegemony through politics of harmonization between rates of exchange, trade barriers and standardization of production.

Indeed the signal of US supremacy was always evident at the beginning of the century. Between the two world wars, the great multidivisional enterprises such as Du Pont and General Motor assumed a multidivisional form achieving major autonomy and interconnection between the divisions specializing in the creation of hierarchal management staff. By 1901, US companies maintained around fifty overseas manufacturing operations, by 1913, this number had risen to 116 (Dickens, 1986: 58). US companies were moving from traditional, flexible specialization types of networks to a more vertically integrated and Fordist production system. In the post war period the system experienced quantitative and qualitative changes in the patterns of expansion and accumulation of capital in trade and production.

The tendency for a growing and significant proportion of world trade to be "internalized" within, and administered by, large scale, vertically integrated, trans-national corporations, which in turn shaped the international division of labour, expresses a new feature of the economic system.

The distinctive feature of contemporary trans-national corporations is ascribed to the diversifications and (de)localization of income generating assets in different countries. Their size, scope of operations, structure, organization and its view of the world as a single economic unit permit them to specialize flexibly and to cross the state borders, at the same time organizing the production chain as a *sequential* process. TNCs are in addition responsible for the bulk of foreign direct investments through which business firms transfer capital, technology and organization skills from one country to another or from one branch to another (Hymer, 1972).

The internalization of cost of transaction within the multiplex sectorial branches of the firm, production, distribution, management, etc, and the consequent "by-passing" the market, makes TNCs one of the most powerful economic institutions in the history of capitalism (Dunning, 1981). As Gilpin has observed, the essence of direct investments by US transnational corporations has been the shift of managerial control over relevant sectors of foreign economies to American nationals (Gilpin, 1975:11). In his view originally this new species of corporate business played a key role in the strengthening and expansion of the global power of United States that was not different from the role played by chartered companies in the seventeenth and eighteenth centuries in relation to Dutch and British power (Gilpin, 1975: 141-2). World production has been increasing at a rate of 6% each year, trade production at a rate of 8% (Jenkins, 1992).

The big spur to the trans-nationalization of production indeed did not come only by corporate capital, rather the global military Keynesianism of US state created the base for the expansion. The creation of euro-dollar and petro-dollar markets, the demonetarization of gold and the action of US banks contributed to create a trans-national banking system characterized by a huge concentration of finance. In this sense transnational expansion of corporate capital was both a crucial means and support of US international political and military position and an outcome of US government's pursuit of the world.

Technological advances sustained the flexibility necessary to adapt themselves to the changing local conditions: decomposition of the production process in simple task suitable to be carried out by unskilled labour; technical innovation in sectors basic to transport and communication, complex engineering technique, communications network, computer processing data.

TNCs engaged in diversified trans-territorial and functional specialization. Their motivations to diversify and delocalize the production can be varied. They are to be found, on one hand, in specific advantages of the international firm - know how, power in the share of market, computer processing – on the other hand, in the combination of technological, political, financial and economic reasons - less taxes and more political control of labour, less political risk, access to the market of capitals, infrastructure, entrepreneurial spirit and environment. Their operations redefine the spatial organization of production processes. TNCs tends to externalize low value added segments of the production chain and internalize the so called "knowledge-based" assets which are reinforced by the massive investments in the strategic realm of *Research and Development*. Relations between state and capital and between capital and labour are in turn reshaped. Industrial and commercial capital promoted globalization towards integrated networks of productions. Gereffi, who coined the definition of global commodity chain, distinguishes producer-driven commodity chain, i.e. where the different component of the production chain are driven by the producer (the automobile sector) and buyer-driven commodity chain, i.e. where the commodity chain is driven by the retailers such as Wal Mart (Gereffi, 1995). The peculiar attention given to global commodity chains makes us comprehend the decomposition of the production process and diversification of control and the ownership of each segment.

Far form consolidating the territorial exclusiveness of states, the explosive growth of TNCs has became the most important factor in undermining the substance of that exclusiveness. An estimate for 1980 put the number of TNCs at over 10,000 and the number of their foreign affiliates (Stopford and Dinning, 1983:3). By the early 1990s, according to another estimate these numbers have increased to 357,000 and 170,000 respectively. Of these 24,000 were home-based in the fourteen major developed OECD countries (United Nations, 1993).

According to Hymer and Rowthorn the tendency to the trans-nationalization of production, exchange and finance of US corporate and non-US corporate capital did not bode well for the system of nation states within which the process had far been embedded: "Multinational corporations, render ineffective many traditional policy instruments, the capacity to tax, to plan investment because of their international flexibility…There is a conflict at a fundamental level between national planning by political units and international planning by corporations…the propensity of multinational corporations to settle everywhere and establish connections everywhere is giving a new cosmopolitan nature to the economy and policies to deal with it will have to begin from that base (Hymer and Rowthorn,1970: 88-91).

The ongoing proliferation and pervasiveness in the number and variety of TNCs constitute a novelty in state-capital relation. According to Arrighi, in fact even though they were an expression of US political and economic power, their proliferation backfired it. In the context of escalating demands for high mass consumption in the First World and for national self determination and development in the Third World when US most needed a "cut" on the claims that US multinational had established on foreign resources and incomes, the fiscal crisis of the US "warfare-welfare state" became acute under the impact of the costs, political and economic, of the Vietnam War and US civil rights movements (Arrighi, 1999). As the crises deepened a growing flow of US corporations, instead of being repatriated, flew to offshore money markets, precipitating the collapse of the US controlled Bretton Woods system (Arrighi, 1982).

This does not mean that TNCs do not remain distinctively connected with their own base or that states disappear, rather it implies that they do not necessarily retain a "loyalty" to the states in which they originate. However the unintended result of their proliferation is a disempowerment of Western States, in sharp contrast with their empowerment before and during the nineteenth wave of globalization. The TNCs are business organization that specialize themselves across the boundaries of sovereign states whose legislative and politic action is of course indispensable to allow the circulation of means of productions and capital, however rarely states have the political power and will to impose limitations on these movements.

The creation of export production zones in the host countries where fiscal concessions, low labour and environmental standards and productive infrastructures are available is the answer to States who desire to attract FDI. The push for opening markets created a fertile environment for TNCs which investments increasingly took diversified forms: direct investment, portfolio investments, joint venture, public-private partnership, etc (Dicken, 2003, chap. 12)

The proliferation of TNCs form Germany, the Japanese *keiretsu* in the 1970-80s, the contemporary South Korean *chaebols* and the emergence of Third World MNCs in manufacturing processes, manifest the presence of a non-American challenge on one side, and on the other the unevenness of the diffusion of the production processes and investments who are highly concentrated in the New Industrialized Countries and in the West according to different *environmental and political* conditions (Dicken, 2003, chap. 7).

Concluding as we have seen, it appears clearly that a territorial non coincidence between a world market, global in its economic dynamics, and nation state whose dynamic is particularistic and differentiated, is increasingly undermining the whole structure of the economic system, altering the state/capital relations and labour/capital relations of contemporary capitalism. Capitalism undermines for its own success the social institutions that constitute it and protect it; however, is it not this one of its central and crucial contradictions?

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