

from R. Little - M. Smith
Perspectives on world politics

London, Routledge 1991.

3.4 Power and dependency in an interdependent world: a guide to understanding the contemporary global crisis

Gary Gereffi

Source: *International Journal of Comparative Sociology*, vol. 25, nos 1-2 (1984), pp. 509-28.

Gereffi argues that with the growing internationalization of capital since the Second World War states have become increasingly interdependent. But levels of dependency are not symmetrical and power is still concentrated at the centre of the world economy. He illustrates the argument by looking at the problem of Third World debt, showing that the source of the problem and its solution lie in the developed world.

[Gereffi discusses initially how rapid economic growth after the Second World War internationalized the world economy, making all states increasingly interdependent. The developed states, however, have become stronger in the process while the underdeveloped states have become weaker. As a result of this growing asymmetry, in times of economic crisis, almost inevitably, adjustments are made in the world economy to suit the developed states. Gereffi goes on to examine the effects of these crises from the perspective of the underdeveloped countries.]

THIRD WORLD DEPENDENCY AND THE WORLD RECESSION

The increased internationalization of the center countries has made them more interdependent on one another and indeed more sensitive to fluctuations in the world economy generally. The great advantage of the center countries, however, is that they have the capital, technology, and markets needed for their development process to be relatively self-sustaining. This is not true of most of the third world. The development of peripheral nations usually requires critical

external complements. The more extensive this external reliance – on imported goods, foreign direct investment, foreign loans, export markets for commodities or manufactured items, etc. – the more dependent the country is. To better appreciate the degree of asymmetry involved in first world-third world relations, it is worthwhile to look more closely at the United States' ties with Latin America, and especially Mexico. [...]

Mexico is in many ways a symbol of the asymmetry of first world-third world relations and of the third world's vulnerability to the world recession. Despite attempts to diversify its trade and investment ties, Mexico remains overwhelmingly dependent on the United States. Three-quarters of its exports and over two-thirds of its imports were carried out with the United States in 1980. While Mexico is the United States' third most important trading partner (after Canada and Japan), the situation looks quite different from north of the border. The United States received 5 per cent of its imports from Mexico and sent 6 per cent of its exports there in 1980. What is a huge proportion of Mexico's trade is thus a small share of US trade. Furthermore, Mexico regularly runs a trade deficit with the United States which stood at \$1.6 billion in 1979. One of the obvious political implications of this asymmetry is that US domestic economic decisions will affect Mexico much more than Mexico's decisions affect the United States.

Mexico's trade imbalances are compounded by other forms of dependency. Approximately three-quarters of the FDI [Foreign Direct Investment] in Mexico is by US-based firms. (Mexico absorbs about 3 per cent of all US direct investment abroad.) US TNCs [transnational corporations] in Mexico tend to be among the largest firms and they are in the fastest growing industries, such as chemicals, rubber, machinery, metal fabrication, transportation equipment, and food processing. The potential power of TNCs to set guiding policy is increased by the fact that most of these industries are oligopolies in which the conduct of a few big sellers largely determines industry performance. Mexico's reliance on its neighbor to the north also is evident in a different sort of economic activity: tourism. Mexico ranked fourth worldwide in tourist income in 1979 (\$1.4 billion) and it has the largest tourist industry in Latin America. In 1980 tourism was expected to net \$1.6 billion, or 38 per cent of Mexico's balance of payments and 6 per cent of its GNP. Since 85 per cent of Mexico's tourist arrivals come from the United States, continued prosperity in this sector is heavily dependent on the condition of the US economy.

Undocumented workers are one of the most sensitive problems

dividing the United States and Mexico. With high levels of unemployment and underemployment (estimated at nearly 70 per cent in rural areas) and with demographic patterns projecting a significant labor surplus situation well into the next century, Mexico views the continuing flow of undocumented workers northward as an important safety valve that helps assure its social and political stability. The incentive for these workers is predominantly economic, due to huge real-wage differentials between the United States and Mexico that for many low-skill occupations range between 8:1 and 13:1. These differentials have widened even more with the recent devaluation of the Mexican peso. Given the losses already suffered by US workers due to the recession in their own country, the mounting pressures on the American side to restrict the flow of undocumented Mexican workers into the United States are taken very seriously indeed by the Mexican government. They further call into question what is already a very uncertain economic forecast for Mexico in the coming years.

The most explosive issue facing Mexico and other third world nations today, however, is 'the debt bomb'. Over slightly more than a decade the external debt owed by governments and state enterprises in developing countries to foreign creditors has skyrocketed tenfold, from \$64 billion in 1970 to about \$600 billion in 1982. The external debt burden, while a common phenomenon throughout the third world, is particularly acute in Latin America which owes around \$300 billion or one-half of all developing country external public debt. The amounts owed by the largest third world borrowers in 1983 are staggering: Brazil, \$90 billion; Mexico, \$83 billion; Argentina, \$40 billion; Venezuela, \$32 billion; Poland, \$24 billion; Chile, \$21 billion; Nigeria, \$15 billion; and Peru, \$12 billion. This transfer of external financial resources has been described as 'the most rapid, most concentrated, most massive flow of investment capital to the Third World in history'.¹

With the unprecedented expansion of third world external public debt came a significant change in its composition: more and more loans were acquired from private sources, particularly commercial banks active on the Eurocurrency market. In Latin America and elsewhere, the proportion owed to private rather than official creditors rose from less than one-half in 1970 to approximately two-thirds in 1980. This new mix produced a more onerous debt structure for two reasons: it shortened the average maturities of the external public debt and its cost depended on floating rather than fixed interest rates (i.e. interest rates adjusted about every six months to reflect changes in market rates). At a more general level, this

privatization of financial flows allowed private banking institutions to displace TNCs and official aid as the most important source of foreign capital available to third world countries. In the 1960s official aid accounted for 50 per cent, foreign direct investment by TNCs for 30 per cent, and bank loans and bonds for only 10 per cent of the total flow of external financial resources to Latin America; by the end of the 1970s, banks and bondholders were responsible for 65 per cent of this flow, FDI was just over 15 per cent, and official aid stood at only 12 per cent.

The debt burden grew after the quadrupling of oil prices in 1973, when private banks experienced a sudden increase in loanable funds as the Arab oil revenues (petrodollars) flooded bank coffers. This excess liquidity created pressure on the banks to expand their loan portfolios. With commodity prices generally up at the time, third world nations appeared an attractive place in which to stash the petrodollars, a process called recycling. Most developing countries jumped at this opportunity because they faced mounting deficits from their oil import bills. The crunch for heavy borrowers came as the global recession began to spread. The slump in the center countries hurt third world economic performance in various ways: commodity prices fell, the terms of trade became more adverse, export markets were eroded, and interest rates rose (a rise in part triggered by the growing budget deficits in the United States). Pretty soon, developing nations were forced to borrow more and more just to meet repayment schedules of old loans. By 1982, many of these countries were in a situation where virtually their entire export revenues were insufficient to service their external public debt (see Table 1). And the banks, who could not afford to have these countries default, have been forced to continue lending. The claims of the nine largest US banks on Mexico, Brazil, and Argentina alone equaled 112 per cent of the banks' capital in mid-1982. It is a debt trap from which both sides are finding it difficult to escape.

A lasting solution must go to the heart of the third world debt problem: countries are trying to finance long-term development projects by short-term liabilities. But from what quarter can we expect change to come? It is unlikely that the major third world debtors will voluntarily reduce their borrowing because total export revenues are already inadequate in some cases to service the existing external debt and further cutbacks would force the curtailment of almost all imports and domestic subsidies for essential goods and development programs – a politically unpopular (if not fatal) course of action. The large banks also are reluctant to voluntarily reduce

Table 1 Estimated external debt service payments, 1982 (per cent of exports of goods and services)

Country	Total	Interest	Principal ^a
Argentina	179	44	135
Mexico	129	37	92
Ecuador	122	30	92
Brazil	122	45	77
Chile	116	40	76
Venezuela	95	14	81
Colombia	94	25	69
Philippines	91	18	74
Peru	90	21	69
Turkey	68	13	55
Korea	53	11	43
Thailand	48	10	38
Egypt	48	7	41
Yugoslavia	46	14	32
Algeria	39	12	27
Indonesia	27	8	19
Taiwan	21	5	16
Nigeria	20	7	13
Malaysia	17	5	12

^aAll debts due within the year, including amortization of medium- and long-term debt plus short-term debt outstanding at the beginning of the year.

Source: Morgan Guaranty Trust Company, 'World Financial Markets', October 1982, p. 5.

their lending to a sustainable rate because they are vulnerable to the threat of default if they force third world nations to borrow less.

The key actor in managing the international debt crisis is the International Monetary Fund (IMF), which at the behest of the United States is adopting an ever more assertive role. Traditionally, the IMF imposed austerity programs on countries that required emergency loans or needed to reschedule their external debt in order to avoid default. For the first time, however, the IMF is now applying conditionality to lending banks as well as to borrowing countries. The IMF loan package for Mexico in 1982, for example, was not approved until the banks had agreed to provide \$5 billion; this pattern was repeated in rescue packages assembled by the IMF for Argentina, Brazil, and Yugoslavia.

The commercial banks, which historically have resisted attempts to intervene in their global operations by their governments and by

international agencies, are hailing a new era of cooperation with officialdom. This is not surprising when one realizes that, in effect, the IMF is acting as enforcer of the banks' loan contracts. Continued access to IMF funds is contingent on the debtor's regular payments on its commercial interest. Both the US Federal Reserve system and the IMF have allowed the banks a free hand in setting the terms for new bank loans and rescheduling. The banks have seized this opportunity to sharply increase the interest margin charged on rescheduled loans and to tack on additional hefty fees which will cost Mexico, to take a well known case, about \$800 million over the base interest rate in 1983. From the banks' perspective, loans to troubled borrowers like Mexico and Brazil are at present among the most lucrative assets on their books. There also appears to be an implicit US government guarantee for these new loans to uncreditworthy borrowers, although neither banks nor government officials will admit this openly.

The danger for the future is that banks are assuming a larger and larger role in the financing of foreign governments, and eventually the line between the foreign policy interests of the United States (and other center countries) and the commercial interests of private banks will be blurred to the point of nonexistence. Because private bankers are virtual newcomers to the politics of collecting debts from third world nations, they have pressured Washington and the IMF to come to their assistance. This worked to Chase Manhattan's good fortune in the case of Iran, for example, where billions of dollars in Iranian loans were wiped off its books after the US government decided to freeze the post-Shah regime's assets in the United States and permit banks to seize those deposits to pay off their Iranian loans. Government officials, on the other hand, will find it tempting to turn to banks as instruments of foreign policy when faced with the prospect of a friendly nation going bankrupt. The third world liquidity crisis of the 1980s has altered, then, not only the way in which banks and governments deal with international debt problems, but more importantly how they deal with each other.

CONCLUSIONS

The growing internationalization of the center countries since 1970 and the decline in the relative economic importance of the United States have contributed to the emergence of a more interdependent world. This interdependence, however, is still fundamentally asymmetrical. The contemporary global crisis may have been aggravated by the policies and problems of the third world nations, but it was not

caused or dominated by them. The inflation, unemployment, and economic stagnation that have characterized the international recession are a product of long-run structural trends in the world economy and of macroeconomic and even domestic (e.g. federal budgetary) decisions emanating from the center countries. It is instructive and maybe ironic that the world's two most populous nations, China and India, have up to now escaped serious slowdowns in growth because their economies are more self-sufficient than most others and therefore less vulnerable to events in the industrialized world.

The solution to the global crisis will not come from a dismantling of the international economy or a generalized movement toward greater autarky, however. Paradoxically, perhaps, the returns to most third world countries would probably be improved by a more genuinely *open* international system. The success of the most rapidly growing of the developing nations (the so-called semiperiphery), for example, has been predicated on open access to core country markets, especially for their manufactured exports; substantial imports of intermediate and capital goods from the center countries have been an important element of their growth strategies as well. The effects of the world recession are beginning to alter this pattern. The acute financial crises that have erupted like brush fires across the third world recently have led a number of governments to devalue their currencies and cut imports. Some center countries, who claim that imports of manufactures from the third world have contributed to their economic declines, are consciously moving in the direction of discriminatory policies that aim to co-opt or tame a handful of the most advanced developing nations. This approach will not yield the intended result of a more productive and dynamic manufacturing sector in the centers, although it is easy to see why organized labor prefers the minimal but predictable gains to be had from protectionism. Industrial policy in the developed countries would be more effective if it promoted positive structural adjustments that would help absorb the workers displaced from traditional manufacturing jobs. This means recognizing and adapting to changes in the industrial capacity and export potential of third world nations.

NOTE

- 1 Jeff Frieden, 'Third World Indebted Industrialization: International Finance and State Capitalism in Mexico, Brazil, Algeria and South Korea', *International Organization*, 35: 3 (Summer 1981), pp. 407-31, p. 407.

3.5 Transnationalism and its national consequences

Oswaldo Sunkel and Edmundo F. Fuenzalida

Source: Jose J. Villamil (ed.), *Transnational Capitalism and National Development: New Perspectives on Dependence* (Harvester Press, Brighton, 1979), pp. 67-93.

Sunkel and Fuenzalida argue that the development of capitalism at the centre and periphery of the world economy has been profoundly affected by a process of transnationalization which has created a transnational community with a distinctive culture. They point to potential sources of conflict between national and transnational communities and the attempts being made to reassert the national community.

THE MAIN COMPONENTS OF TRANSNATIONAL CAPITALISM

(a) The transnational institutions

The dominant institution of the global system is the transnational corporation (TNC); dominant because it is the focus of crucial decision-making with respect to what to produce, by whom, how, for whom, and where in the world market. Dominant also because, as a group, they are highly influential institutions with respect to national and global society, politics and culture.

But the TNCs are by no means the only important institutions in the global system. They may have more visibility because of their enormous economic and political power and influence, the conflicts and confrontations with states in which they have been involved, and the huge amount of resources that they devote to promote their image, but there is a whole network of other institutions that support the operations of the TNCs. Some of them are intergovernmental institutions, such as the IMF, the World Bank or the OECD in the economic sphere, or NATO and the Rio Pact in the military sphere, with as high a visibility as the one enjoyed by the TNCs. Others, public and private, operate at the national or subnational level and

have less obvious links to the global system but in fact operate as parts of it. Those engaged in foreign aid, export promotion and finance activities, both civilian and military, fall in this category.

Particular importance should be given to those educational institutions that prepare the staff of the transnational institutions, usually outstanding universities and polytechnics in the richer countries and their 'subsidiaries' in the Third World. These institutions share with the magazines, newspapers of worldwide circulation, news agencies, multinational advertising companies and television networks, the task of elaborating and diffusing the vision of the world that promotes the interests of the TNCs.

Finally, there are the transnational journals and the informal networks of scientists and professionals, with their periodical and highly publicized meetings and conferences which provide not only basic information but also the human inventory from which specialized staff is recruited.

(b) The transnational community

The global system is operated by a stratum of society that appropriates most of the surplus produced by it. Their position in the productive structure ranges from that of owners of the means of production and the top managerial and financial positions, through the higher professional, technical and bureaucratic ones, both in private and public institutions.

The basis of their hegemony is the specialized knowledge they possess, and their indispensability in the process of creation and application of that knowledge to the production of new goods and services and to the process of innovation and production differentiation that is the main reason for the superiority of the TNCs.

As stated above, the activities of the TNCs are supported by the scientific and technological progress generated by the institutions of higher learning, as well as by the highly skilled personnel trained by them. The transnational community, therefore, has its base not only in the TNCs, and in all the economic sectors in which these operate (industry, agriculture, mining, transportation, construction, marketing, information, mass media, banking and finance, tourism, entertainment, etc.), but also in the other transnational institutions. On the basis of their specialized knowledge, professional organization and social prestige, these elites have a measure of control over these institutions, and the power to capture part of the economic surplus, which allows them to sustain relatively high standards of living.

(c) The transnational culture

The stratum of society that we have called the transnational community is made up of people that belong to different nations, but who have similar values, beliefs, ideas (and a *lingua franca* – English), as well as remarkably similar patterns of behaviour as regards career patterns, family structures, housing, dress, consumption patterns and cultural orientations in general. The transnational community, then, shares what could be considered a transnational culture. As any other culture, this transnational culture has two main components: specialized and common culture.

The first emerges out of the specialized scientific-technological activities carried out by the members of the transnational community – and is a necessary input for the expansion of industrial capitalism. This segment of the culture is permeated by the specialized knowledge possessed by its carriers, the one that has allowed them to become members of the transnational community in the first place. Since this knowledge is based on the progress attained by the systematic application of the so-called 'scientific method' to every aspect of reality, the transnationals' approach to the world and to themselves is heavily influenced by a belief in the effectiveness of 'problem solving' through rational analysis and the application of 'the scientific method'.

The second component of transnational culture is common culture. Transnational capitalism has affected habits, ideas, beliefs, values and behaviour in matters such as family life, housing, consumption patterns, and other aspects of everyday life. One of the most important effects has probably been on consumption patterns, as the cultural feature of the dynamics of oligopoly capitalism has been the creation of a homogeneous market for consumption goods and services on the worldwide scale. The transnational community is the best and most complete and coherent expression of these new consumption patterns, but they spread over wider sectors of the population as a consequence of the demonstration effect and the active and extensive use of the mass media. The consequence on the lower income classes is a partial adoption of these new consumption patterns and the distortion of the existing ones. This refers not only to the better known examples related to consumer durables, but to basic food, as when bread substitutes for maize or manioc.

(d) The spatial organization of transnational capitalism

The recent technological revolutions in transportation and communications have drastically reduced the costs of distance and time. The application of electronic innovations to production processes has allowed further disaggregation of the labour process into distinct and simple tasks. Production processes can therefore be separated into specific stages, and these distributed all over the world on the basis of locational advantages such as cheap and disciplined labour, access to markets, government subsidies, access to strategic resources or inputs and the absence of environmental regulations. In other terms, the geographical decentralization of production facilities within and among countries can proceed much further than ever before, taking advantage of locational factors, while at the same time maintaining centralized control over planning, finance, manpower, marketing, production and innovation.

Distinct types of spatial configurations tend to take place as a consequence: on the one hand, a functional separation of managerial, scientific and technological, and production activities, into downtown business districts, areas of concentration of academic establishments and peripheral industrial areas. On the one hand, a hierarchical decentralization between world headquarters in central countries, located in cities such as New York, London, Paris, Frankfurt and Tokyo; regional headquarters located in the cities of the more transnationalized countries of the various regions of the Third World, such as Mexico City, Sao Paulo, Nairobi and Singapore; and national headquarters, usually in the capitals of less important or strategic countries. The scope for independent policy, planning and decision making becomes more restricted when moving from world to national or local levels, and some functions disappear altogether. Innovative scientific and technological activities, for instance, will take place almost entirely at world level, as will overall strategic planning, and financial and manpower management. This obviously implies increasing rigidity and declining autonomy as one moves towards the local production unit, and this is a source of friction and conflict with the national/local environment.

At all levels, the transnational institutions have to establish contacts and relationships with national and/or local governments, business firms, and the labour market, both for professional, technical and bureaucratic personnel as well as for skilled and unskilled labour. In time this process brings about the development of national and local counterpart institutions and communities, increasingly inte-

grated into the transnational institutions and communities. These communities will tend to concentrate in suburban residential areas, which will reproduce the urban structure, housing and life styles of the transnational communities of the central countries. Local middle and higher income segments of the population will seek to extend these life styles to themselves, as a means of incorporation into the consumption patterns of the transnational sector.

Although the members of the transnational community that live in the central countries have much in common with those living in the peripheral ones, there is a division of labour between the two, and important differences between them. As regards the first aspect, high level personnel of the transnational corporations will remain in the central countries, as the functions of devising global strategy and planning are retained there; so will most of the personnel dealing with innovation, both in science and technology as well as in production and marketing. At the local level the highest functions will be those of administering and implementing global strategies.

As a consequence of these spatial patterns, national and local resources will be allocated preferentially to expanding the 'modern' sectors of towns and cities, while older quarters decay and slum areas proliferate, accentuating the characteristic heterogeneity of contemporary cities: modern residential, business, government, industrial and even working class areas intermingled with older and decaying residential, business, government, working class and industrial areas, all of it surrounded by growing slum areas.

In synthesis, the transnational institutions and communities are spatially scattered around the world in an archipelago of nuclei of 'modernity', linked among themselves through a number of centralized hierarchical structures that define dominant and dependent nuclei. These nuclei interact with national and local societies, parts of which have become more or less integrated into the transnational nuclei, while the rest is indirectly related or affected through the labour market, the exchange of goods and services, the socialization agencies of education and the mass media and the reallocation of resources brought about by transnational influences.

Since the size, importance and type of transnational nuclei varies from country to country, as do the socio-cultural and geo-political characteristics of national and local societies, each country will present the same generic similarity of the interaction between a new and expanding transnational nucleus and a pre-existing society, but will also show great differences according to the nature of the society in which this interaction takes place. Comparative studies of these

different types of situations seem therefore crucial for a better understanding of the transnationalization process under different sets of national characteristics.

(e) The transnational system and the nation state

The transnational system has developed an economic infrastructure of TNCs and related institutions, it has a population which constitutes the transnational communities, these communities share a common culture, and all of these elements are established in certain territories. But while these elements are components of the transnational system, they also happen to be under the jurisdiction of national states. In other words, the transnational system overlaps with a system of nation states. As a consequence there may be a coincidence with the objectives and procedures of the state and its socio-political base, but there are also bound to be conflicting situations when the aims and procedures of each system are different.

From the point of view of its global rationality, a TNC may want its subsidiary in a given country to produce a certain product for the local market, employing its own technology, imported inputs and capital goods, buying out or displacing local competitors, keeping full control of its capital, management and organization procedures, using its own public and labour relations practices and remitting the maximum amount of profits to headquarters. The national government may want to strengthen national capitalists, have the subsidiary produce for export, buy inputs locally, have nationals share in ownership, management and technological know-how, adapt to local organization, accounting and labour relation practices, minimize its remittances abroad, maximize reinvestment locally and pay taxes on profits. This is, of course, the traditional conflict over the conditions for foreign private investment, and it deals essentially with the sharing of the additional income generated by the subsidiaries.

A much more fundamental question is that related to the whole strategy of development, heavily influenced by the local transnational nucleus, seeking to reproduce the living standards, patterns of consumption and culture that characterize transnational nuclei elsewhere. The main instrument through which this aim can be achieved is the state, and access, control and influence over it becomes crucial. This was achieved in recent decades as a consequence of the expansion and transformation of the functions of the state brought about by the internal and external pressures for economic and social development. The new activities of the state were heavily promoted

by international technical assistance, which introduced new approaches and methods in public administration and planning. A new and enlarged government bureaucracy emerged, both civilian and military, whose function was to modernize and rationalize the state in its promotion of economic and social development, as well as in its capacity to deal with internal conflicts and subversion. These new social sectors share to a very large extent the values, principles and methods of the transnational community, and have a direct interest in the transnationalization process. Through its global and local influence, as well as its strategic internal presence within the state itself, the transnational community acquired significant influence over the process of resource allocation and policy making, quite out of proportion to its actual economic or political power. In their attempt to reproduce locally the methods and life styles of the developed countries, they have contributed significantly to a massive allocation of resources for the satisfaction of these 'needs', with extremely positive effects for the standards of living of a minority of the population, including themselves, and very negative consequences for the majority of the population.

Conventional development theory has argued that this conflict does not exist, at least in the longer term, because the expansion of the 'modern' (transnational) nucleus will increase the total product, and this will in turn bring about a 'spill over' that will improve the lot of the majority of the population in due time, as occurred in the now developed countries. Our argument, on the contrary, is that contemporary transnational capitalist growth has produced cumulative and increasing polarization, which in turn has affected relations between the nation state and transnational capitalism.

The conflicts between the nation state and transnational capitalism were overshadowed to some extent by the formidable expansion of transnational capitalism until the early 1970s. This expansion created the impression of a coincidence of interests between both. But the crisis and recession of recent years is pointing in the direction of increasing conflicts between national interests and transnational capitalism.

Indeed, one of the increasingly serious problems that the nation state has had to confront since 1973 is the decline in economic growth rates, the tendencies to increasing external and fiscal imbalance, the consequent increased indebtedness and inflationary pressures, the continuous increase in unemployment, underemployment and poverty and the increasingly limited room for manoeuvre in its redistribution policies. This is particularly serious in the case of the

so-called developing countries, but is also becoming a matter of concern in the developed countries, as TNCs increasingly invest abroad, establishing productive facilities for serving local markets or for re-export to the developed countries. Employment opportunities are thereby doubly threatened and political pressure is increasing for protectionist policies to be adopted.

This is one example of the contradictions between the expansion of the transnational system and its requirement of political stability, both in developed as well as in underdeveloped countries. In developed countries, where average levels of living are very high, and inequality is less acute, stabilization and 'incomes' policies have so far been able to deal with short-term economic disequilibria. There are nevertheless very serious long-term structural problems as regards access to natural resources, the environment, growing structural unemployment and others which are not unrelated to the expansion and characteristics of transnational capitalism.

In underdeveloped countries, where the level of average income is low, inequality is severe, and poverty widespread, growing economic disequilibria and political tensions can only be contained by means of force. The spread of authoritarian and military regimes in the countries of the Third World in recent years is undoubtedly related to these tendencies.

Differences arise also because transnational elites in underdeveloped countries find themselves in a much more exposed and segregated position with respect to the rest of their society and because they have to perform the functions of articulating their country to the global system while preserving the integrity of their nation state. They tend to be more closely linked to the state and more explicitly political.

The objective pressures for adopting protectionist and nationalistic policies in developed and underdeveloped countries have been mounting, but the actual possibilities of disengaging to a greater extent internal processes from international phenomena have simultaneously become much more severely restricted. The transnational system has not only developed strong structural links across national frontiers, both economic, social, cultural, and political, but a set of international organizations and institutions, such as the OECD, the IMF and the World Bank among others have been established, a semblance of a global state, with the aim of maintaining the transnational system and dealing with any threats to its functioning. Therefore, socio-political 'adjustments' tend to take place internally rather than internationally.

THE PROCESS OF TRANSNATIONALIZATION OF THE GLOBAL SYSTEM

Techno-industrial capitalism, in its contemporary form as a global transnational system, is the product of a long historical process. [...] The following main historical stages can be identified: a formative period of capitalism as a worldwide commercial system, from the last third of the fifteenth century to the last third of the eighteenth century; the emergence of the first historical instances of industrial capitalism and modern nation states, during the last third of the eighteenth century and the first third of the nineteenth century; internal consolidation and external imperial expansion of the first industrial capitalist states, from about 1825 to the 1870s; industrial capitalism as a global trading, financial and investment system, in its international-imperial organization phase, between 1870 and 1914; crisis of international-imperial capitalism, the emergence of a socialist alternative and attempts at reorganization of industrial capitalism as a response to it, between 1914 and 1945; techno-industrial capitalism as a global system in its transnational organization phase, as a response to the previous crisis period and the internal consolidation and external expansion of the socialist alternative, from about 1945 to the present.

The process of reorganization of the capitalist system after the long period of crisis from 1914 to 1945 evolved out of different national situations. The countries that had been liberated from German occupation by the USSR, or that had undergone a socialist revolution made up the socialist block under the leadership of the Soviet Union. The industrialized countries of Western Europe, whether defeated (Germany, Italy) or victorious (France, UK, Holland, Belgium), were severely weakened by the war effort and confronted very serious internal political problems, with strong left wing parties of a reformist or revolutionary character. Japan's situation in Asia was similar to that of the former Western European countries. In the colonies of the industrialized countries of Western Europe and Japan in Africa, Asia and Latin America the nationalist struggle for independence became more intense, taking advantage of the crisis of the metropolitan powers and the presence of the socialist countries. The independent non-industrialized states on these continents, mostly those in Latin America, had embarked on protectionist policies of import substitution industrialization during the crisis and war years and were pressing for international acceptance and support for their policies.

The USA emerged as the single most powerful economic, political and military power from the period of crisis and war, and as the new

centre of the capitalist system. In 1948, it launched a massive economic, diplomatic, military and ideological offensive in order to contain the expanding socialist block and the threat of left wing parties in many capitalist countries both in the Centre and in the Periphery. A global network of international treaties of mutual defence between the US and countries on the borders of the socialist world was built up and US military bases maintained or established in their territories.

The reconstruction of the economies of the industrialized countries of Western Europe and of Japan was promoted through a massive transfer of financial resources and technology (Marshall Plan) and the creation of the OECD and the EEC. Further industrialization and modernization of the independent states, especially in Latin America was also supported at a later stage through technical aid, financial cooperation and promotion of private foreign investment. Finally, a network of international, economic, financial and technical assistance organizations was created, aimed at reconstructing the international system that had broken down during the period of crisis, at dismantling the protectionist structures and policies that all countries had adopted during that period, and at promoting the reincorporation of underdeveloped countries into that system, once the reconstruction and revival of European capitalism was well underway.

These processes, and certain fundamental characteristics of the economy and society of the USA, constitute the immediate origin of the emerging transnational system. The westward territorial expansion of the American economy and society took place in sparsely populated areas, at the expense of relatively primitive indigenous societies, and largely over the North American subcontinent, a vast contiguous territory richly endowed with natural resources. The continental dimension of the country and its vast internal market, as well as the relative scarcity of labour, favoured the development of capital intensive technology, mass production and very large oligopolistic business organizations, with wide geographical coverage. Science, technology and business had become closely associated in the development of mass production. Moreover, as a consequence of the Great Depression and World War II, which brought about government intervention in the economy and a great war effort, a symbiosis of government, large corporations and science and technology took place.

This dynamic core of the American economy and society, which had remained relatively 'isolationist' until the Second World War - with the exception of the Caribbean and Central America - pene-

trated throughout the world during the war, and remained and expanded afterwards, in the 1950s and 1960s during the period of the Cold War. This was instrumental in the worldwide expansion of American techno-industrial capitalism. It was also fundamental in the reconstruction and development of a similar 'style' of capitalist development in the former European and Japanese capitalist centres, where similar dynamic oligopolistic cores were formed or reconstructed, as well as in the underdeveloped countries, where expanding 'modern' sectors emerged.

Although the immediate origin of transnational capitalism is the oligopolistic corporate sector of the American economy, and the techno-scientific establishment of American society, as well as parts of its government apparatus, its American 'national' character has been gradually eroded as similar dynamic cores of business, science and technology and government have emerged in the revitalized industrial centres of Europe and Japan, and as their subsidiaries expand and penetrate the underdeveloped countries and even, to a more limited but growing extent, the socialist countries. The original American drive to reorganize capitalism has therefore been transformed, becoming a transnational drive, which is in turn penetrating and affecting American society itself, as well as others.

MECHANISMS OF INCORPORATION OF UNDERDEVELOPED COUNTRIES INTO THE GLOBAL SYSTEM

Since this paper is mainly concerned with the process of capitalist development in the countries of the Third World, we will limit our discussion to the effects of transnationalization on these countries. As these effects are greatly influenced by the way in which the transnationalization process manifests itself in each particular case, we will first examine briefly the various means through which national societies interact with the global system: (a) foreign investment in the primary export sectors, tourism and/or in the manufacturing sector, usually by establishing subsidiaries of transnational corporations; with two main variations in the case of manufacturing: production for the internal market or for export, usually to the more advanced industrial societies; (b) systematic use of the mass media (newspapers, radio, television) to create a demand for new consumption goods and services, employing advanced techniques of advertising; in most cases this implies the creation or expansion and modernization of a national system of communications; (c) foreign public loans and technical

assistance to rationalize, modernize and expand the state apparatus, with particular emphasis on economic and social infrastructure and military institutions; in recent years there has been increasing access to a new and rapidly expanding private international financial market; (d) scholarship programmes, both civilian and military, to train local personnel in the educational institutions of the core countries in the different branches of science and engineering and in the new disciplines of management, planning, national accounting, information processing, mass media, marketing, and 'national security'; (e) reform of the educational institutions in order to educate locally human resources able to replace foreign technicians; (f) generalization of the criteria, priorities and methods of the transnational style to all areas of social life, from economic activities to health, education, housing.

These various mechanisms have been in evidence in the different underdeveloped countries since the early 1950s. They did not all commence simultaneously, and they were promoted by different social and professional groups, economic interests and government departments, both from the underdeveloped as well as from the industrial countries. But even if they were not intended to operate simultaneously and coherently, it soon became apparent that they constituted a new kind of process of technological innovation in its widest sense, a whole package of mutually reinforcing innovations in production, consumption, organization, behaviour and values, both in the private and public sectors – in short, a new culture. During the international phase of industrial capitalism the mechanism of incorporation into the global system was primary-product exports and the main technological innovation was the railway. Furthermore, the social groups affected were highly restricted. As a consequence 'modernization' was an 'enclave' phenomenon. Transnational modernization, with its emphasis on developing a mass consumption market, its reliance on the mass media, on large-scale, capital-intensive and technologically sophisticated local production units, on planned government and international action and on the local reproduction of the 'model' offered by the industrial countries, has had much more far reaching aggregate effects, both intended as well as unintended.

EFFECTS OF TRANSNATIONALIZATION ON UNDERDEVELOPED SOCIETIES

In general, these effects are threefold. The first one is the emergence

of a dependent nucleus of the global system in the underdeveloped society, with its own institutions, culture and community, that differentiates itself sharply from the rest of the society, and that controls to a large extent the machinery of an increasingly repressive state.

The institutions that become integrated into this nucleus include the subsidiaries of the TNCs in the different sectors of the economy; the larger local firms that use advanced technology, both private and public; the specialized government agencies that deal with the planning and implementation of ambitious development projects and with the overall planning of 'areas' such as health, education, the cities, transportation and communication; the higher educational institutions, especially those that are involved in scientific research; the international organizations; the armed forces.

The aggregate of these institutions provides jobs, income and goods and services for a segment of the local population, that therefore may share similar patterns of behaviour with the inhabitants of the dominant nucleus of the global system in the developed countries. Among the patterns of behaviour that are particularly striking are the residential areas of the capital cities of underdeveloped countries that reproduce the layout and architectural styles of similar residential areas in the dominant nucleus and that tend to be physically separated from the rest of the city.

The second effect is the creation of a mass of unemployed or underemployed people that, having very precarious and unstable sources of income, are forced to survive in conditions of extreme poverty, whereas at the same time they are stimulated to aspire to the level of living enjoyed by the people in the dependent nucleus of the global system. This state of affairs is the direct consequence of the destruction, displacement and/or stagnation of the traditional socio-economic institutions that offered them jobs, income and goods and services – however poor and primitive – by the more efficient ones brought in by the global system; the incapacity of the new capital-intensive activities to absorb the demographic increase of the work force and the un- and underemployment generated by transnationalization; the intense effort of the mass media to replace traditional goods and services by the products of the new economic activities that results in a change of the pattern of consumption in society; and the acceleration of the growth of the poorer population and of the labour force as a consequence of innovations, modernization and extension of the health services, which have reduced the mortality rates of the poor but not their birth rates.

As the process of transnationalization is basically urban, this mass of marginalized people concentrate in certain areas around the big cities, and mainly in the capital, where the aspired goods and services are on display, in dramatic contrast to the limited employment opportunities. There, they are physically segregated from the other segments of their own society. The glaring contrast between their own lot in life and that of their fellow countrymen that have found a place in the new system, and the objective scarcity of 'legitimate' ways to obtain the desired goods and services, leads them to react in various ways, both individually and collectively. The actions of the deprived bring in turn the reaction of the privileged, who turn to the state for protection. Since they, as a whole, control the state, its force is used against these masses, contributing to its authoritarian character.

As we have already indicated, the transnationalization and polarization effects described above have a third effect: the accentuation of the authoritarian and repressive character of the state as the hegemonic social groups become increasingly threatened. But there are also other types of responses that attempt to deal with the causal forces rather than with its consequences. These are attempts at severing the links of the society with the global system and at reorganizing it internally in a less polarized way, both in terms of social action and in social thinking. These attempts are a second order effect of the two aforementioned ones and range from the rediscovery and reformulation of the values, symbols and art, to the founding of political movements that have as their main goal the disengagement of the society or of parts of it, from the global system.

One can then perceive three dimensions to the process of transnationalization: transnational integration, national disintegration and attempts at reintegration. [...]

3.6 Information technology and capitalist development

Gareth Locksley

Source: *Capitalist and Class*, 27 (1986), pp. 81-105.

Advances in technology, Locksley argues, have turned information into a valuable asset and a new source of power, comparable to land and capital, which could in principle be used to improve the lives of everyone. In practice, developments in information technology (IT) are dominated by the military and multinational corporations. These organizations have shaped IT to promote centralization and surveillance and global relations are being restructured so as to develop the interests of international capital. Locksley concludes, however, by suggesting that this trend could be reversed and IT could be used to satisfy social needs.

INTRODUCTION

Information technology (IT) can be viewed as a collection of machines – computers, telephone exchanges, word processors, work stations of various description, robots, satellites, automatic cash dispensers, cable TV etc. Software is used to activate and operate these machines without human intervention or manage a user through the steps of an activity. Broadly there are two sets of machines that make up IT – computers and telecommunications. They share features of a common technology associated with digital electronics. The distinction between computers and telecommunications equipment has blurred so that their progress is described as convergent, a theme that recurs here. But there is much more to IT than machines. There is no activity that IT does not touch – in home, office, factory, culturally, politically, economically. IT has been boosted into Western societies as the vehicle for greater political participation, more leisure, greater equality between sexes and classes, more freedom, more choice. IT's potential for these developments is real but IT as implied can produce the opposite outcomes of more inequality, less freedom,