

# Class, Race and Corporate Power

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Volume 1  
Issue 1 *Reflections on Class, Race and Power*

Article 4

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2013

## Transnational Capital and the Politics of Global Supply Chains

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### Recommended Citation

Cox, Ronald W. (2013) "Transnational Capital and the Politics of Global Supply Chains," *Class, Race and Corporate Power*. Vol. 1: Iss. 1, Article 4.

DOI: 10.25148/CRCP.1.1.16092153

Available at: <https://digitalcommons.fiu.edu/classracecorporatepower/vol1/iss1/4>

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## Transnational Capital and the Politics of Global Supply Chains

### Abstract

In the latest phase of globalization, transnational corporations based in the U.S. have worked closely with U.S. foreign policymakers to secure favorable foreign direct investment provisions within U.S. domestic legislation and within U.S. trade agreements. These interactions between transnational firms and the U.S. state have provided many of the preconditions for an expansion of foreign direct investment connected to capital liberalization and the growth of global supply chains from the 1980s to the present. This relationship is best conceptualized as representing a “transnational interest bloc,” whose policy objectives are incorporated within investment provisions in US-backed trade and investment agreements.

### Keywords

Transnational Corporations, US Foreign Policy, Power, Profits

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Note: Much of the empirical material for this article was first published in Ronald W. Cox, "Corporate Finance and US Foreign Policy," in Ronald W. Cox, ed., *Corporate Power and Globalization in US Foreign Policy*, Routledge Press, pp. 11-30.

## Introduction

The US state has used its power, in concert with sectors of transnational capital, to promote the conditions for the growth of a global production system characterized by global supply chains and financed by a global network of institutional investors. The firms located at the top of the global supply chain, often referred to as “system integrator firms”, have achieved disproportionate power in the US political system that has affected state policy in a number of areas, including tax law, trade agreements, and foreign economic policy. Here I examine the conceptual and historical contours of the relationship between transnational firms, the US state and the growth of global supply chains.

Beginning in the 1970s, corporations based in the US expanded their lobbying networks and policy planning organizations to shift policy in a more conservative direction. A wide body of scholarly literature has documented this shift, which resulted in lower taxation, deregulation, weakened labor laws and weakened antitrust laws. Corporations looked to reduce costs in the context of increased global competition. Fortune 500 firms were experiencing declining profit rates from the mid-1960s through the early 1980s, and sought to reverse these trends by a combination of economic and political strategies. A convergence of events during the 1980s allowed some US-based transnational corporations to begin the process of corporate restructuring. This involved a shift from a multidivisional corporate form to a multisubsidiary corporate form. As part of this process, corporations looked to reduce costs by concentrating on the most value-added aspects of the production process, including ownership of patents,

branding, marketing and distribution of products. Transnational production strategies shifted from ownership and control of production to subcontracting with independent producers or creating a subsidiary structure of production that reduces the costs and risks of parent firms. Across the Fortune 500, increasingly referred to as the Global 500, corporations at the top of the value chain were increasingly selling their corporate divisions that produced products in exchange for arms-length relationships with independent supply networks.

System integrator firms refer to those transnational corporations that are located at the top of global value and supply chains. Their control of patents, branding, marketing and distribution networks give these firms a disproportionate ability to exercise market power relative to firms located below them in global supply networks. The pace of corporate consolidation at the top of global supply chains has been accelerated from the 1980s to the present, with mergers and acquisitions going through a 4<sup>th</sup> phase during the 1980s, and another 5<sup>th</sup> phase that extended from the 1990s through the 2000s. The two most recent waves of mergers and acquisitions differ from earlier corporate strategies in that the most powerful transnational firms have used their market power to gain control of activities that are the most profitable within a global system of production. Transnational firms based in the US have succeeded in using their political power, lobbying networks, and policy planning organizations to weaken US antitrust laws and to establish favorable changes in the US tax code that have contributed to global corporate restructuring. The next section examines the roots of the policymaking initiatives advanced by transnational corporate interests in the late 1970s and early 1980s that facilitated corporate reorganization (Cox, 2012).

### The Long Downturn and Crisis of Fordist Production

U.S. corporations faced a systemic crisis of profitability that can be measured by falling rates of profit of Fortune 500 firms from the mid-1960s to the mid-1980s. By the mid-1960s, corporate profits as a percentage of overall corporate revenue began falling. Another set of measurements, revealing the same trend, indicates that corporate profits were falling in relation to gross domestic income of the U.S. (Milberg, Winkler 2008: 8). These trends had significant effects on both the economic and political activities of corporations in the U.S.

For U.S. corporations, the traditional approach to maintaining profit rates had been to use oligopolistic market power and position to raise prices. This strategy could only be used by firms whose market share in a given industry was at a level of concentration that made it cost prohibitive for new firms to effectively enter the market and to compete at lower prices. The most globally competitive US-based corporations in automobiles, steel, chemicals, and machine tools enjoyed such an advantage over their competitors through the immediate post-World War II period. This enabled these firms to effectively capture the most dynamic high-value added segments of the US market against domestic and foreign competitors for the first two decades after WWII. However, by the mid-1960s, there were visible cracks in the oligopolistic structures that allowed these firms to dominate the US market.

Rising competition from Japanese and German exporters, followed by market penetration from the newly industrializing countries of Asia, weakened the hold that US-based oligopolies had on the US domestic market. The ability of US oligopolistic firms in key industries to raise prices to maintain profitability was undercut by the influx of greater foreign competition. Furthermore, foreign firms that retooled after WWII had a built-in advantage over their US counterparts: they adopted newer technologies that made them more competitive and had a lower time horizon of “sunken” costs compared to their US competitors. US firms, having developed

their productive assets during the 1930s, had higher pension and medical care obligations than their foreign counterparts—a reflection of both the high levels of privatization of these costs in the US compared to Europe and the lengthier time horizon for US firms in being obligated to these costs. During the first two decades of the post-World War II period, the most globally competitive US firms could use their status as “early industrializers” to establish oligopolies that dominated the US market in all of the leading sectors of manufacturing. That strategy was becoming untenable with the rise of increased global competition.

U.S. corporations had to look to other strategies in an attempt to overcome the declining rate of profit. A convergence of events in the late 1970s and early 1980s led corporations to restructure their operations through M @ A strategies that involved buying out, or merging with, competitor firms and subsequently shedding assets in a restructuring process designed to focus business operations around a core set of activities. This involved a reorganization of the corporation around global supply chains in which the highest value added profits accrued to corporations at the top of the chain. From the mid-1980s to the present, there has been a greater concentration of market share controlled by corporations at the top of the value-added chain of production, especially in “the high-technology and/or strongly branded segments of the global markets” (Nolan, Zhang, Liu 2007: 23). This process has coexisted with an increasingly complex global production system of small and medium-sized producers and suppliers that competes with each other to satisfy the terms of production that are increasingly being established by the “system integrators” at the top of the supply chain. The restructuring process that began in the 1980s has accelerated to the present, increasingly financed by institutional investors through the purchase of corporate shares. This financialization of production has

accelerated the pace and scope of global value chains made possible by tremendous technological advances and by the liberalization of financial markets throughout the world.

The US state has played an important role in the establishment of global supply chains through a number of mechanisms that will be the focus of the next section of this chapter. First, the Reagan Administration during the 1980s was very ideologically supportive and accommodating to the lobbying efforts of transnational business organizations in weakening antitrust law. This helped provide the preconditions for the dramatic expansion of corporate mergers and acquisitions that led to a reorganization of production. Corporations established lobbying networks coordinated by groups such as the Business Roundtable to lobby for the weakening of antitrust law. The corporate leaders of the Business Roundtable viewed M @ A strategies as one important tool to reverse the declining rate of corporate profits. By taking advantage of state policies that facilitated M @ A, corporations could potentially restructure their operations in a manner to make them more attractive to the financial sector. Institutional investors provided financing for firms that were willing to shed costly assets, including domestic infrastructure and jobs, in favor of concentrating on core activities that would then be complemented by a greater reliance on global supply chains to lower the costs of needed inputs.

#### Business Mobilization and US Policy

The structural economic crises facing the top 500 industrial corporations intensified during the 1970s and early 1980s. Increased global competition sliced into the market share of once privileged firms, whose debt levels steadily increased during this period, especially from 1980 to 1984 when debt soured from 68.3% of equity to 81.4% (Prechel 1997: 414). The problems were exacerbated by the previous strategies of US-based firms during the 1960s to solve the long-term accumulation crises by acquiring unrelated businesses in an attempt to

counter the beginning stages of declining rates of profit. The so-called third merger and acquisitions wave of the 1960s created large-scale conglomerates that were extremely top heavy, which over the long term added to the cost burdens of firms faced with greater global competition for markets in the 1970s and 1980s. By 1969, the share prices of US conglomerates dropped almost 50 percent from their previous high, including firms such as Litton, Gulf and Western, and Textron. In response to these trends, merger activity slowed dramatically during the 1970s, as corporations sought to concentrate on stabilizing a management structure that had to juggle complex product divisions which were all competing for resources. The efforts toward more effective management strategies failed, as reflected in a dramatic fall in the rate of profit during this period for the top 500 industrial firms from 7.7% from 1973 to 1981 to 4.8% from 1982-1986 (Prechel, 1997: 414).

In this context, US-based corporations increased their levels of political mobilization in an effort to shift US state policy in a more conservative direction. As numerous authors have documented, corporate political mobilization was achieved through an expansion of corporate think tanks and foundations, greater cooperation among business lobbying groups that had previously been more competitive, a dramatic infusion of lobbying dollars that proved pivotal in affecting legislation, and agenda-setting strategies that were reinforced by the rise of neoliberal ideology (Ferguson and Rogers 1984; Cox and Skidmore-Hess 1999; Jenkins and Eckert 2000). While the myth of the median voter persists in political science literature, the real politics of the right turn could be found in the intersection between the corporate boardroom and the political establishment. Business policy organizations such as the moderately conservative Business Roundtable and the American Enterprise Institute, and the ultraconservatives associated with the US Chambers of Commerce, the National Association of Manufacturers, the Hoover Institution



and the Heritage Foundation were influential in establishing the parameters of legislative options during the late 1970s and early 1980s (Akard 1992; Davis and Greve 1997; Jenkins and Eckert 2000).

The Business Roundtable, established in 1972, represented the most internationally competitive sectors of US business, and served as a kind of all-purpose political consulting organization to develop long-term strategic thinking for corporations faced with declining rates of profit (Burris, 1992; Dreiling 2000; Carroll, Carson 2003). Resting uneasily amidst a loose-knit membership of top financial and manufacturing firms alongside emerging top retail corporations, the Roundtable could not always move forward with positions that would be acceptable to the entirety of its membership base. Nevertheless, the organization sought to develop a political strategy that would begin to counter the falling rate of profit that was faced by a wide cross-section of its corporate membership. This included weakening US labor laws, relaxing federal regulations, weakening antitrust provisions, and enabling corporate restructuring through favourable shifts in US tax laws.

One of the first shots across the bow of effective business mobilization occurred in 1978, when the Business Roundtable, the US Chambers of Commerce and the National Association of Manufacturers put their muscle behind the Revenue Act of 1978, which reduced the capital gains tax to 28% and locked in a 10% investment tax credit (Jenkins and Eckert 2000: 316-317). With the election of Ronald Reagan, conservative economic policies continued and expanded, including the Economic Recovery Tax Act, which in 1981 provided an increased depreciation allowance for fixed capital investments alongside a reduction in the progressivity of personal income taxes, amounting to the largest tax cut in history (Jenkins and Eckert 2000: 317). Initially supported by both the Business Roundtable and the Chambers of Commerce and NAM, within

two years the affects of this legislation divided the corporate lobbies. Wall Street interests were concerned about the inflationary impact of lower taxes, and the leading corporate foundations differed over the priorities that should drive legislation, with the conservative American Enterprise Institute favoring balanced budgets over supply side tax cuts, while the Heritage Foundation and the Hoover Institute favored a supply side strategy of tax cutting as the long-term solution to all other problems.

In this context of corporate political divisions, the Business Roundtable played a crucial role in advancing the interests of the most internationally competitive US corporations. First the Roundtable supported increased taxes as a strategy to help check inflation (and thereby a partial reversal of the ERTA), followed by lobbying efforts by the organization on behalf of Congressional legislation that would facilitate a more thoroughgoing corporate restructuring. The passage of the Tax Reform Act of 1986 was a Congressional response to the ongoing crises of business profitability, reflected in rising debt to equity ratios and an inability of firms to use lower capital gains taxes and greater depreciation allowances to reverse declining rates of profit. The 1986 Act “provided tax free mechanisms to transfer capital among parts of the corporate family” (Prechel, 1997: 17). Concretely, this provision allowed corporations to more easily shift their corporate structure from multidivisional forms (MDF) to multilayered subsidiary forms (MLSF). Corporations could replace divisions that were previously owned by the firm and managed by the central office with subsidiaries that would be legally independent of the corporation while still being financially controlled by the corporate parent. This allowed corporations much greater flexibility in financing their operations due to the fact that divisions which were previously wholly owned by the firm were shifted to the status of subsidiary corporations that could raise money on their own through stock sales.

Thus the financialization of corporate profits was facilitated by changes in US tax law in 1986, with the Business Roundtable leading the way in lobbying for the legislation. The shift in corporate structure from the MDF to the MLSF allowed corporations, at tax free rates, to restructure their operations by shedding legal responsibility for corporate divisions that were previously managed by the central office. This multilayered structure allowed for a greater reliance on stocks, as opposed to external financing from banks, to generate revenue for subsidiaries and greater options for the parent firm, who could then use stock revenue from their subsidiaries to retire corporate debt. The shift in corporate structure facilitated the global restructuring of the corporation, with the central office of the parent company establishing a far-flung network of subsidiary firms that would produce a range of products at arms-length from the legal obligations of the parent corporation. With control over subsidiaries requiring only 50% plus one of financing, corporations could easily shift ties from subsidiaries to independent suppliers and contractors in an effort to further restructure the corporate form. This downsizing of corporate assets allowed firms to establish greater control over the high-valued added parts of the production process, increasingly centered around branding, marketing and distribution, while shifting the higher costs and riskier activities further down the supply chain.

Such a restructuring strategy would not have been possible without the fourth wave of mergers in US history during the 1980s. This merger wave, unlike the conglomerate trend of the 1960s, was characterized by firms purchasing firms in the same industry and downsizing other activities that were deemed peripheral to future profit streams. The Tax Reform Act of 1986 included a provision that allowed corporations to use their acquisitions of other firms to qualify for tax free status, as long as the acquisition “was in the same or a related product line as the existing business” (Prechel, 2000: 257). This law followed an extended period of reduced

enforcement of antitrust policy during the Reagan Administration. Reagan's Treasury Secretary, Attorney General, and Commerce Secretary supported an antitrust policy that would relax provisions of the Clayton Act which specified that mergers and acquisitions should be prohibited when "the effect of such acquisition may be to substantially lessen competition or tend to create monopoly" (Prechel, 2000: 257). Within this context, the Reagan Administration's first antitrust chief in the Justice Department, William Baxter, "rewrote the antitrust guidelines to raise the level of market concentration that triggered a Justice Department challenge to conglomerate mergers, vertical combinations between suppliers and customers, and horizontal mergers between competitors" (Prechel 2000: 257).

The mergers and acquisitions wave of the 1980s began a process of restructuring by US-based transnational firms that intensified during the 1990s and 2000s. With each passing decade, corporations have used favourable changes in US antitrust and tax laws to facilitate the establishment of global production networks which have been essential in efforts to attempt to stabilize profit rates after two decades of steady decline. Since 1986, US-based corporations have relied on imports from global supply chains for a steadily higher percentage of inputs in production. In the manufacturing sector alone, "offshoring intensity of material inputs reached 14.5% in 2006, up from 11.6% in 1998, 6.2% in 1984 and 4.1% in 1974" (Milberg, 2010: 6). However, not all firms are created equal in their linkage to global value chains. Corporations involved in the production of electrical equipment, telecommunications, computer and electronic products, motor vehicles, transportation equipment and apparel were disproportionately involved in offshoring of material inputs. Firms in these sectors, by 2006, were relying on the offshoring of material inputs for as much as 20 to 25% of non-energy inputs used in their final product (Milberg and Winkler 2009: 281).

Aggregate numbers reveal a similar picture of a US economy that is much more firmly tied to offshoring and global supply chains than has been the case historically. By 2004, “52% of US imports were intra-firm” and “intermediaries accounted for 38% of US imports” (Milberg, 2010: 6). A simulation model of US trade found that “vertical specialization—the sequential vertical trading chain stretching across many countries, with each country specializing in particular stages of a good’s production sequence—accounted for over 50% of the growth of US trade in the period 1962-1997” (Yi, 2003). One indication of the growth of “vertical specialization” is the increasing reliance, from 1986 to the present, by US transnational firms on imports of products from developing countries, whose imports to the US as a percentage of overall imports have steadily risen from 1986 to the present. In 1986, US imports from developing countries constituted about 36% of total US imports, while by 2006 this figure had reached 56%, reflecting a steady increase that reached 40% in 1990, and 45% in 1996 (Milberg 2010: 425).

US-based transnational firms have used a process of restructuring to expand reliance on subsidiaries, subcontractors, and foreign production networks to reduce costs and enhance profit margins. The US state shaped the initial stages of this strategy through favourable tax laws and easing of antitrust enforcement. Transnational corporations were able to shed costly corporate divisions at home in favour of a greater reliance on subsidiaries. The mergers and acquisitions wave of the 1980s was financed by leveraged buyouts, which facilitated a restructuring process that has been accelerating during the past two decades. During the 1990s, firms used stocks to finance further mergers and acquisitions, a process which further concentrated corporate ownership at the top of the global value chain. For example, measurements of corporate consolidation by industry reveal a steady increase in concentration of ownership in

telecommunications, information technology, electrical equipment, agribusiness, automobiles, retail and clothing, airlines, hotels, fast food and computer and electronics production.

But the oligopoly structure does not mean corporate control of production from top to bottom. Instead, there is greater corporate consolidation at the top of the value chain, as corporations consolidate control in the US market over the most lucrative and value added aspects of production, especially design, branding, marketing and distribution of a finished product. The control of the top of the production structure gives corporations the ability to exert greater leverage over a widely dispersed supply network, which has increasingly shifted to parts of the developing world. The ability of US-based transnational firms to restructure their operations has been at least partially dependent on the actions of the US state in opening foreign markets to greater foreign trade and investment. Just as the US state has provided transnational firms with favourable changes in domestic tax and antitrust legislation, the US state has also been very important in negotiating reductions in trade and investment barriers with developing countries to facilitate the emergence of a global supply network. US corporate investment in foreign supply networks has been facilitated by greater access to foreign stock and bond markets, which has given US transnational firms the ability to link directly with foreign producers through the creation of subsidiaries or through minority shares in production networks dispersed across a range of locations and countries. A greater percentage of US corporate profits from the early 1990s to 2006 have been directed to financial investments in stock and bond markets, including a rising percentage of these investments in the emerging markets of the developing world (Krippner 2005: 284-186). At the same time, corporations are paying out more revenues as dividend payments to shareholders, while reducing wages paid to US workers and while investing less in productive plant and equipment in the US (Serfati 2008:40-42). As I will

document in the remaining sections of this article, US state policy has provided an important nexus between US firms and the global supply networks that have been established in the developing markets of the global economy.

### Transnational Corporate Political Networks and Global Supply Chains

During the 1980s to the present, US state policy has worked toward the liberalization of capital investment opportunities for US financial and non-financial firms in the developing world. The extent to which the US state has succeeded in advancing capital liberalization has largely depended on a wide range of factors, including the degree of political and economic ties between transnational political and economic elites in the US and the developing country, macroeconomic circumstances such as debt crises, and institutional factors particular to individual states that either facilitate or hinder the advancement and implementation of neoliberal projects favoured by the US. Here I will examine the emergence of transnational corporate political networks as vehicles for the restructuring of capital markets in developing countries. The pivot point for the establishment of these networks were domestic changes within the US corporation that have been discussed in the previous section, especially the shift from a corporate structure based on a multidivisional form to a multilayered subsidiary structure. This shift provided the basis for a political alliance between institutional financial investors that were becoming much more important within corporate boardrooms and non-financial firms that were committed to expanding production networks into the markets of developing countries. The hegemonic restructuring of developing markets, led by the US state and supported by US-based corporate interests, received additional political and economic support from an emerging transnational class within the developing world that was increasingly linked to global finance. In circumstances where these alliances were particularly strong, the greater the chances for the

advancement and implementation of neoliberal policies favouring the establishment of global supply networks, by way of relaxation of laws governing foreign direct investment and through expanded access to portfolio markets.

The dramatic expansion of foreign access to capital markets in the developing world represented a significant structural feature of the shift to new methods of capital accumulation. William Robinson has captured the shift as one from Fordist production relationships based on national markets to globalized production networks dispersed across state borders (Robinson 2004). This conception of the new globalization accentuates the characteristics associated with the most mobile sectors of capital, whose reorganization of the corporate form, described in the previous section, allowed for the most highly profitable production activities, centered around research and development, marketing, distribution and branding, to be disassembled from the other stages of production, increasingly dispersed across states and global markets and no longer owned or controlled directly by the parent firm. This delinking of different stages of the production process is not entirely novel, but the degree to which the dispersal of component parts of the production process is scattered across a multiplicity of states has created both economic and political linkages that are unprecedented in scope and scale.

The leading transnational firms that epitomize Robinson's conception of a "Transnational Capitalist Class," are most significantly correlated with particular sectors, and specifically the most competitive global corporations within those sectors, of global production, especially computers and electronics, telecommunications, pharmaceuticals, electrical equipment, motor vehicles, media and entertainment, agribusiness and apparel. The growth and concentration of assets within global investment and commercial banking, as well as the emergence of a new category of institutional financial investors managing large-scale assets such as pensions and



mutual funds, etc., have developed in tandem with this emerging global production system. At the same time, the emergence of powerful retail corporations has helped to consolidate this new global production system, illustrated by Wal-Mart's ability to use its tremendous market power to affect prices, wages and costs of production throughout key locations in the global supply chain. The reorganization of corporate structures in the US during the 1980s created deepening ties between institutional financial investors and non-financial corporations, who relied much more on stocks and the ownership of financial assets to consolidate their position in global markets during the merger and acquisition waves of the 1990s.

In the US, transnational corporations who were most aligned with these newly emerging production structures, lobbied the US state to change tax laws in ways that facilitated corporate restructuring. This was also true in US foreign economic policy, where political organizations led by the Business Roundtable became vehicles for promoting the liberalization of capital markets, policies which benefitted globally competitive US-based financial interests as well as non-financial corporations who sought to increase reliance on foreign markets for the production of intermediate goods and component inputs that would be designed, branded and distributed by the parent firm. The liberalization of foreign stock and bond markets helped to connect producers of intermediate goods in the developing world to supply chains that extended back to the US and other developed country markets. Transnational firms would link with foreign producers, either in the form of joint ventures, subsidiaries or independent contractors, to produce products incorporating the technological specifications and packaging required by the parent firm. Foreign producers at the higher end of the production chain could raise money for their costs of doing business by tapping newly emerging domestic stock markets, which could be financed in part by global institutional investors as well as domestic financiers who wanted to realize profits from

the newly emerging transnational production networks. Other foreign producers, at the lower end of the production chain and not capital-intensive enough to enter domestic stock exchanges, would produce component parts at cheap costs at the bottom of the supply chain, with an overwhelming dependence on cheap labor to realize the slimmest of profit margins.

A political model of corporate influence in US foreign policy can be linked to the position of corporations along the global supply chain. US-based transnational firms at the top of the supply chain have the strongest representation within the Business Roundtable, arguably the most influential corporate political organization in US foreign policymaking—especially US foreign economic policy and trade policy. In the negotiations that provided the legal framework for NAFTA, the membership of the Roundtable overlapped with the trade advisory committee established by the US Special Trade Representative to negotiate the details of the agreement. Corporate sectors that were disproportionately represented in the negotiation were those sectors most involved in a global restructuring of production, including industrial and consumer electronics, telecommunications, pharmaceuticals, computers, agribusiness, auto manufacturers, and the most globally competitive textile and apparel manufacturers (Chase 2005). US retail corporations and the leading commercial and investment banks also supported the agreement. The opening of the Mexican financial markets allowed US-based institutional investors holding mutual, pension and insurance funds to tap into the Mexican market as a condition for the restructuring of Mexican debt. At the same time, the privatization of Mexican state-owned industry provided opportunities for the expansion of supply networks linking US transnational corporations to subcontractors in the Mexican market. This was especially true in auto parts and electronics produced in the maquiladora sector. This sector has expanded rapidly after the

passage of NAFTA, alongside other manufacturing sectors that are closely linked to intermediary trade in US global value chains (Yang 1998).

The US state played a significant role in establishing the political conditions necessary for a greater consolidation of supply networks in Mexico. A 1982 change in US banking regulations, The Export Trading Company Act, allowed commercial banks to invest directly in import-export firms as part of their foreign operations. In addition, there were further changes in US banking regulations due to a relaxation of Federal Reserve requirements that allowed commercial banks to gradually expand the percentage of their capital investments in stock and bond markets (Bhargava, Fraser 1998) . Finally, the Brady Plan of 1989 allowed Mexico to finance some of its debt by a “debt for equity” swap in which commercial banks could purchase equity stakes in shares of Mexico’s newly privatized firms as a substitute for outright repayment of debt obligations. The privatization of Mexican firms during the 1980s helped create a transnational political coalition that linked US-based financial corporations—in commercial and investment banking as well as institutional investors—to a newly emerging Mexican supply network that was increasingly owned by a relatively small number of Mexico’s wealthiest financial investors. Represented politically by the Mexican Businessman’s Council, the largest 37 Mexican firms dominated the privatization of state assets, accounting for 80 percent of the value of all privatizations between 1982 and 1991 (Moody 1995: 101). The Business Roundtable and the US Chambers of Commerce worked closely with Mexican investors to support privatization initiatives during the 1980s that became institutionalized with the passage of NAFTA.

In the case of Mexico, a transnational political coalition could emerge more easily than was possible in other contexts due to the historical ties between US capital and Mexican capital,

especially in the Maquiladora sector, which had been established as a legal arrangement in the 1960s, and in agribusiness, which large-scale Mexican firms and financial interests were already deeply connected to US agribusiness firms in the purchase of machinery, fertilizer and trade relationships. This process was connected to the ongoing transformation of global agriculture toward more elaborate supply chains that linked to food processing, marketing and distribution networks dominated by large-scale US agribusiness corporations, and structured in important ways by the rising power of corporate supermarket retail chains (Spielfoch 2010).

### The Centrality of Finance in Global Restructuring

The financial sector had seen the largest growth in profit margins since the shift toward a “shareholder governance model” during the 1980s. Non-financial firms have become steadily more dependent on investments in the financial sector, including stock buybacks and dividend payments, which have displaced long-term capital investment in plants and equipment. This process has created, at times, a surge of wealth from financial speculation, but at the expense of long-term (and more stable) investments in capital equipment that can produce jobs. The short-term imperatives of keeping institutional investors satisfied has meant a greater reliance on financial investments that have high short-term rewards but greater long-term risks. Furthermore, an emphasis on short-term growth has served to crowd out investment in real capital, as a detailed econometric study of investment patterns by non-financial firms has demonstrated (Yi 2003).

Non-financial corporations, driven by pressures from institutional investors for high stock valuations, and having shed productive capital assets in favour of a greater reliance on branding, marketing and distribution of a product at the top end of the value chain, have steadily expanded their reliance on portfolio investments in global markets, a further indication of the

financialization of production. This trend is indicated by statistics on foreign direct investment from the late 1980s through the late 1990s, when the composition of foreign direct investment shifted disproportionately to portfolio financing (Haley 2001: 18). In other words, transnational corporations involved in global supply networks are increasingly relying on institutional investors to finance those supply networks through portfolio funds and bond issues. Normally, when foreign direct investment increases, as it has during the 1980s and 1990s, there is a decrease in bond financing. This is because foreign direct investors have traditionally funded large infrastructure projects as part of their foreign investment expenditures. Therefore, those projects have typically been less reliant on financing through bond or portfolio markets. However, the trends of the 1980s and 1990s defied this historical pattern: FDI financing has depended much more on bond and portfolio financing than it has in the past. This has meant a much more central role for institutional investors, whose financing of FDI has been important in establishing the linkage between transnational corporations at the top of the global supply chain and the supply networks based in emerging markets in the developing world (Haley 2001: 24-43).

The increased importance of institutional investors as a nexus between transnational corporations and global supply chains is a crucial component of the new financialization of production. By the middle of the 1990s, there was good evidence that emerging market fund managers controlled as much as 55 percent of portfolio flows to emerging markets in the developing world (Haley, 2001: 33). This category of fund managers is dominated by institutional investors that manage mutual funds, pension funds, investments of insurance companies, banks, brokerage firms, and large multinational corporations. The Reuters database that track these funds indicated “only 56 funds that fall into the category of emerging market

funds in the US and Europe” (Haley, 2001: 34). Furthermore, “within this fund universe, five institutional investors hold 72 percent of these assets” (Haley, 2001: 35). The concentration of these funds among just five institutional investors provides a starting point for understanding the political and economic power of institutional investors in the new global production system.

Institutional investors exist because of the increased importance of global portfolio investments to the bottom line of financial and non-financial corporations alike. The increasingly competitive world of global capitalism has led the most global and competitive transnational corporations to restructure their operations around financial investment allocations that are tied to assessments of foreign portfolio markets. Institutional investors that manage large-scale financial assets are important political and market mediators for transnational corporations looking to expand supply networks into emerging markets. The Clinton Administration tied much of its foreign economic strategy during the 1990s to prying open portfolio markets to access by US-based institutional investors. This has been elaborated most fully by the work of Peter Gowan, who has noted the geopolitics associated with US efforts to offer both “carrots and sticks” to developing countries in exchange for liberalization of capital markets, a process that contributed to the Asian financial crisis of 1997.

The rush to liberalize capital markets as a US-IMF “solution” to economic crises in the developing world is the essence of the turn to neoliberalism from the 1980s through the early 2000s. That political turn has been over-determined by a constellation of actors at the top of the corporate pyramid whose profit margins have been much more firmly tied to an accumulation of financial assets than was the case prior to the mid-1980s. This is true for non-financial firms increasingly tied to investment strategies that are at least partly the product of an ascendancy of institutional investors as powerful shareholders within the corporate boardroom. In addition,

non-financial corporations at the top of increasingly elaborate global supply chains look to institutional investors to manage the monetary investments of the firm, which are increasingly diversified in an array of global portfolio products. Non-financial corporations use a variety of mechanisms, including currency speculation and hedge funds, to help manage risks associated with rising portfolio investors. And they also utilize external signals from a relatively small number of top institutional investors to decide whether or not to invest in particular emerging markets, or to pull out investments if political and market signals are problematic.

The ability of commercial and investment banks to merge operations and to engage in a higher percentage of risky proprietary investments has been politically possible due to a steady increase of political influence by the financial sector on US economic policy—both domestic and foreign. The easing of restrictions placed on the ability of commercial banks to use depositors' money to engage in stock and bond investments did not materialize with the elimination of the Glass-Steagall Act in 1999. Instead, as early as the 1980s, changes in US trade law allowed US commercial banks to invest in export-import companies in foreign markets, a policy that helped contribute to the establishment of supply linkages between US parent corporations and their emerging foreign subsidiaries and subcontractors. By the late 1980s, the US Federal Reserve began a process of easing the regulations that limited commercial banks' investment in capital assets. The debt crisis faced by developing countries during the 1980s further embedded financial institutions, including commercial banks, investment banks and institutional investors, in the purchase of newly privatized assets in countries such as Mexico, where newly emerging Mexican financial groups worked closely with US money managers to take advantage of the profits of privatization.

As a former member of the board of the directors of the IMF has recently commented, the US political system, and much of its foreign policy apparatus, suffers from the same ailment that the IMF has identified in developing countries: state capture by a financial oligarchy that has such a hold on state policy that its most powerful members have been the recipients of the largest financial bailout in US history—on terms highly favourable to the profit margins of the biggest financial holding corporations left standing (Johnson 2009). The politics of these financial relationships have been well-documented elsewhere. What is most striking is how deeply embedded the rest of the US economy has become on the financialization of assets in lieu of productive investments in capital necessary to create jobs for the US working class. In the midst of this current capitalist crisis, the profit margins of non-financial and financial corporations have risen over the past two years, in direct contrast with the wages of US workers—which have fallen. These statistics are directly related to a playing field that has been politically stacked against the working class for some time, both here and abroad. That there appears to be no political appetite for redressing this balance is a testament to the enduring political strength of the transnational corporate network in US and global politics, and the lack of an effective counterweight to their agenda.

#### Transnational Interest Blocs and Business Conflict

The implications of this research for analysis of corporate interests and US foreign policy is that a transnational interest bloc located at the top of global supply chains has established a disproportionate influence over US foreign economic policy. Represented by business associations led by the Business Roundtable, this transnational interest bloc is characterized by its location at the top of the supply chain pyramid. High-tech firms are well-represented, with “system integrator” firms having established overwhelming control of the high value added



aspects of the global computer and software markets. After the previous two decades of mergers and acquisitions, a handful of brand-name manufacturers have consolidated their positions at the top of global supply chains across numerous sectors of the global economy. In addition, retail firms occupy an important strategic space in this framework, with their ability to utilize just-in-time delivery systems to force costs down the supply chain toward primary producers. And, as noted in the previous section, institutional financial investors, with their capacity to move money rapidly across an increasingly deregulated financial landscape, have emerged as central players in the financing of global supply chain networks.

Together these entities constitute a “system integrator” transnational interest bloc which has affected US foreign policy through lobbying networks that have shaped the content of foreign trade and investment agreements. However, this bloc of interests, due to their diverse positions within the global supply chains and their shifting linkages with other actors occupying different positions within supply chain networks, cannot always achieve unity on policy positions. For example, corporate sectors in the high-tech industry who now focus entirely on activities at the top of the global supply chain, including patent ownership, research and development, marketing and distribution, have typically pushed for the most aggressive liberalization of foreign markets in order to facilitate unhindered access (at the lowest cost) to potential supply networks. Manufacturing interests that still have a stake in ownership of production activities often prefer quasi-protectionist clauses in regional trade agreements that allow them time to adjust to the costs of integrating production within regional markets ahead of potential competitors.

To summarize, what I term a transnational interest bloc has four fundamental features that can be captured through a content analysis of trade and investment agreements negotiated by

the US state in combination with sectors of transnational capital located within different positions in global supply networks (Cox, 2008). First, this transnational interest bloc is led by transnational firms based in the market economies of the US, the EU and Japan, and linked to policymakers through business networks and associations that are uniquely privileged to influence regional and global trade and investment agreements. In the US, these transnational firms are represented most prominently by the Business Roundtable, the International Chambers of Commerce, the Americas Business Council and numerous sectoral associations, and are linked to the trade negotiation process through the Office of the US Trade Representative's Trade Advisory Committees.

Second, firms and sectors of transnational capital connected to policymakers in the US, the EU and Japan, have both common and conflicting goals, depending on their position within the world economy. In the cases of NAFTA and DR-CAFTA, some sectors linked to US policymakers pushed for policies that discriminated against firms whose investments were based outside of North America and Central America-Dominican Republic. Other sectors supported a wide liberalization of investment, trade, regulatory and property rights protections in NAFTA and DR-CAFTA that provided equal market access to all foreign investors. Similarly, transnational capital based in the EU and Japan have pursued alternative versions of a Singapore agenda within the WTO that suggests goals that are partly complementary and partly distinct from their US-based counterparts.

The third feature is the linkage between business associations, government bureaucracies and ministries in the developing world and transnational firms based in the developed market economies of the US, the EU and Japan. For example, the structural shifts in the process of globalization during the 1980s provided the basis for greater political cooperation between US-

based transnational capital and firms and government bureaucracies and ministries in Mexico and the Caribbean Basin that were crucial in building support for NAFTA and DR-CAFTA. These relationships have been important in negotiating the political frameworks for the expansion of supply chains and investment networks that extend from the US to developing countries.

Fourth, in the cases of NAFTA and DR-CAFTA, the power relationships and institutional structures of each member state's political system provide the context for understanding how and to what extent a particular transnational interest bloc is able to advance their policy preferences. In the cases of NAFTA and DR-CAFTA, the market size of the US allowed state negotiators and US-based transnational capital significant advantages in crafting the final policy outlines of trade and investment agreements signed with poorer countries. The ascendancy of neoliberal ideology among state bureaucrats in Mexico, Central America and the Dominican Republic, reinforced by growing ties between state actors and transnational capital, has also facilitated ratification of these agreements. The role of the US state and US-based transnational business organizations in promoting NAFTA and DR-CAFTA is part of a broader strategy of utilizing regional trade and investment agreements to secure policies that go beyond what is currently allowed in multilateral forums such as the WTO.

The ability of "system integrator" firms to capture the majority of profits and wealth connected to global supply chains is contested by rival firms located at different positions along the supply chain. At the same time, the contradictions of neoliberal trade and investment agreements are being expressed politically with the growth of populist states in Latin America, and the emergence of NGO movements with ties to labor and environmental groups that are sometimes able to negotiate more favourable terms for the distribution of profits toward lower

levels of the supply chain. As such, the political conflicts over the distribution of supply chain benefits are likely be one of the key issues for students of world politics to address in the near future. I hope this journal and the scholarly contributions presented here can make a significant contribution to this effort.

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