

Growth Models and the Footprint of Transnational Capital

Patrick Kaczmarczyk

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Patrick Kaczmarczyk

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About the author

Patrick Kaczmarczyk is a doctoral researcher at SPERI, Sheffield Political Economy Research Institute, The University of Sheffield.
Email: p.kaczmarczyk@sheffield.ac.uk

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Max Planck Sciences Po Center on Coping with Instability in Market Societies
Sciences Po | 27 rue Saint-Guillaume | 75337 Paris Cedex 07 | France

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Abstract

The definition of various growth models is the latest innovation of comparative capitalism (CC) research. Yet, the literature has its weaknesses in explaining the dynamics within and the interdependencies between different growth models. I argue that this weakness stems inter alia from an inadequate conceptualization of transnational corporations (TNCs). I provide empirical evidence on the footprint of international capital in the global economy and outline how including TNCs as a unit of analysis can help us to better understand economic outcomes. This leads to several implications for the growth models literature, which I conclude my argument with.

Keywords: institutions and the macroeconomy, international business, multinational firms, political economy

Résumé

La définition de différents modèles de croissance est la dernière innovation produite par la recherche comparative sur le capitalisme (CC). Toutefois, cette dernière explique mal tant la dynamique interne des modèles de croissance que leurs interdépendances. Cette limite tient pour partie à une conceptualisation inadéquate des firmes multinationales (FMN). Je présente ici un travail empirique montrant l'empreinte du capital international sur l'économie mondialisée. L'inclusion des FMN comme variable explicative permet alors une meilleure compréhension des résultats économiques. Je conclus par les implications d'une meilleure prise en compte des FMN pour la littérature sur les modèles de croissance.

Mots-clés: économie politique, entreprises internationales, firmes multinationales, institutions et macro-économie

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Growth Models and the Footprint of Transnational Capital

1 Introduction

The shift away from the supply side focus of the traditional varieties of capitalism (VoC) school of thought towards a more demand-side oriented analysis is the latest conceptual innovation in comparative capitalism scholarship (CC). Yet, as it is often the case with nascent concepts, progress in one area opens up a series of new questions in others. Amable et al. (2019) recently provided a comprehensive overview of the state of the political economy literature and outlined various avenues for future research. This paper seeks to tap into this debate by identifying an inadequate conceptualization of transnational corporations (TNCs) in the literature on growth models as an important conceptual shortcoming. This work therefore follows Regan's intuition that a "focus on business-state power holds the greatest promise for new research in contemporary capitalism, particularly when it comes to examining the role of the state in shaping the politics of economic growth" (ibid., 440). The key argument of this article is that a more prominent role for TNCs in the conceptual framework would enable a better understanding and explaining of the dynamics within and interdependencies between different growth models. This would, subsequently, help to obtain a more nuanced view of producers or "economic sectors" within different growth models, as well as contribute to a more coherent understanding of their embeddedness in global value chains (GVCs). In other words, looking at TNCs would enrich the growth models literature by addressing certain dimensions, which it has yet to satisfactorily address, namely the role of GVCs for growth models and the dynamics of change.

The growth models literature, which is critiqued on conceptual grounds, evolved as a response to certain shortcomings of the original VoC approach – notably its excessive supply side focus as well as conceptual rigidities (Baccaro and Pontusson 2016). Nölke (2019) defines this literature as the third generation of CC scholarship, which provides a more comprehensive understanding of the sources of demand as well as national meso- and macro-level institutions.

Until now, CC scholars have identified a range of different growth models, such as wage-led and profit-led economies (Stockhammer, Durand, and List 2016) or a differentiation between growth models led by wages, consumption, investments, exports, or the state (Baccaro and Pontusson 2016). Notwithstanding the advantages that this new approach entails, however, it is clear that the literature does not yet satisfactorily address certain key questions and puzzles. One such shortcoming is the literature's inability to explain

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why the same growth model might work for some countries but not for others and, relatedly, why some countries succeed in changing growth models while others fail. Why, for instance, is France failing to switch from a demand-led to an export-led economy, notwithstanding the pressures from EU institutions and deflationary domestic reforms? Since 2012, its unit labor costs have increased substantially *less* than in Germany, but why did exports not pick up? Why, on the other hand, did China succeed in switching from foreign direct investment (FDI) export-led growth to more domestic demand-led growth, while countries such as Malaysia or Eastern European economies got stuck in a middle-income trap and FDI-led growth?

The question of successfully delivering growth and changing growth strategies will be of utmost importance for policymakers both in the global South and industrial economies. In order to find satisfactory answers to the above questions, I argue that the growth models literature should not entirely disregard supply side factors and risk throwing out the baby with the bathwater. In particular, the role of TNCs as important actors in the global economy needs to be taken into account if the dynamics within and relationship between different growth models are to be better understood. These transnational productive units, especially the largest among them, have acquired a substantial amount of power, govern around 80 percent of global trade, and account for a large share of national exports (UNCTAD 2013a; IMF 2019). Inevitably, the strategies, performances, and decisions of these firms will have knock-on effects on macroeconomic variables and growth dynamics. To illustrate the impact of the largest firms on national economies, UNCTAD (2018) finds that, on average, the largest five exporting firms – which are in most cases TNCs – account for 30 percent of the country's total exports, while the largest ten account for 42 percent. In relation to economic sectors, which have a central analytical role in the growth models literature, Freund and Pierola (2015) go even further by suggesting that "revealed comparative advantage in a sector can be created by a single firm," given that "variation in exports from the top firm in a country explains about one-third of the variation in sectoral exports relative to income across countries" (ibid., 1023). Some influential examples include Nokia in Finland or Samsung in South Korea. Both firms account for 20 percent of their home countries' exports, but similar patterns are present across various economies – especially developing and emerging ones (Freund and Pierola 2015).

Overall, therefore, the influence of TNCs in global production, higher market concentration ratios across industries, and an increasing degree of corporate power and profits indicate that global markets function differently than most textbooks assume (Bouhia 2018). TNCs play a much more *active* role in governing GVCs and determining national production and export performances, while always acting in accordance with their own profit maximizing imperative. Economic growth, whether driven by investments, exports, domestic wages, or other forms of demand, can therefore be severely impacted by the decisions made in TNCs' headquarters. This might, for example, take the form of TNCs outsourcing production and then re-importing the goods for sale on the domestic market, leading to high corporate profits but also to deindustrialization and current

account deficits at home. The United States is a typical case of such type of corporate conduct, which provoked, already in the 1960s, an intense debate about the negative effects of outward FDI on the balance of payments and growth dynamics (Kindleberger 1970). There is some preliminary evidence that French and Italian TNCs behaved similarly in the course of European integration since the early 1990s in order to protect their margins (Celi et al. 2018), which would partially explain why these economies struggle to generate investments at home and boost exports. In other cases, it may be that TNCs outsource only the low value-added parts of their value chain to low-wage countries, and thereby maintain a strong position in export markets. The integration of Eastern European production into German value chains serves as a prime example of how an export-led growth model is, in fact, not only supported by domestic corporatist institutional arrangements but also highly dependent on low-wage labor in a geographically proximate economy. Those Eastern European economies, in turn, get stuck in a middle-income trap and remain dependent on foreign capital for their growth strategy, since the main decision-making unit that determines domestic production is located abroad. China, on the other hand, was initially also dependent on foreign capital for its growth. However, it succeeded changing its growth strategy to one that is driven by domestic consumption and innovation, since it forced foreign TNCs to transfer their knowledge, which enabled the emergence of Chinese TNCs in global markets. Finally, the more corporate power and market concentration grow on a regional or global level, the more macroeconomic outcomes and different types of growth will become an externality or a function of corporate decision making. This is obvious for the investments and net exports components in GDP calculation, but it is equally true for employment and wage developments in industries such as manufacturing or services. In short, taking into account how TNCs operate is helpful for a more comprehensive understanding of macroeconomic outcomes and capitalist development.

This article is organized as follows. First, section 2 provides an overview of the conceptual developments in the growth models literature, outlining its demand-side and macro-institutional focus and thus conceptual blindness to TNCs. Section 3 introduces a theoretical framework for conceptualizing TNCs, before section 4 empirically outlines the footprint of these economic units. In doing so, I rely on secondary data from international institutions to illustrate the increased power of TNCs in the global economy, which leads to the conclusion that, through their very size, their impact on what we measure as growth has inevitably increased. Section 5 works out the implications for the growth models literature, while section 6 provides the conclusion and outlines various avenues for future research.

2 Situating growth models in a world of transnational capitalism

While a comprehensive overview and analysis of the VoC and growth models literature would go beyond the scope of this paper (for an excellent review, see Nölke 2016; 2019; or Wood, Dibben, and Ogden 2014), it is nonetheless important to briefly outline the conceptual developments of CC scholarship over the past decades. Although the roots of CC and VoC scholarship date back to the 1960s (Shonfield 1965), it was Hall and Soskice's (2001) collection of essays that led to the breakthrough of VoC as a key analytical tool. The most important contribution of these authors was to establish a distinction between liberal market economies (LMEs), such as the US, and coordinated market economies (CMEs), with Germany as a representative model. The authors arrive at this conclusion through the analysis of institutional complementarities and concomitant institutional comparative advantages. The former suggest that national institutions are interdependent and mutually reinforce each other, so that "the presence (or efficiency) of one [institution] increases the returns from (or efficiency of) the other" (Hall and Soskice 2001, 17), which in turn gives rise to the latter. The institutional comparative advantage that firms find in LMEs and CMEs respectively provides them with unique advantages in radical (LME) and incremental innovation (CME).

Although this theoretical approach seeks to address the rather macro-related question as to why specific patterns of trade flows or industrial production emerge, it departs, as it is common in conventional macroeconomic theory, from a micro-centered ontology. Hall and Soskice outline that their approach is "actor-centered" (2001, 6), which implies that the political economy is ontologically regarded "as a terrain populated by multiple actors, each of whom seeks to advance his interest in a rational way in strategic interaction with others" (ibid.). Whilst acknowledging that numerous actors with diverse interests interact within national economies, the firm is regarded as *the* central actor, so that it becomes the focal point of the analysis. Amongst the extensive critiques that followed (cf. Hancké 2009; Nölke 2016), the most important ones for the analysis at hand included the assumption of domestic value chains and comparative institutional advantages (Schneider, Schulze-Bentrop, and Paunescu 2010). As Hall and Gingerich have put it, VoC scholars assume that "firms … exploit [domestic] institutional support to derive competitive advantages that cumulate into comparative institutional advantages at the national level" (2009, 461). Thus, even though the firm is a central analytical unit, the "methodological nationalism" that early VoC research was accused of (Bruff and Horn 2012, 163) excluded, by definition, the possibility that TNCs could economically and proactively integrate *various* national economies into a given industry.

The second generation of CC scholarship went beyond the rigid distinction between CMEs and LMEs by introducing a larger variety of models. These included, amongst others, dependent market economies (DMEs), mixed market economies (MMEs), and state-led market economies (SMEs) (Molina and Rhodes 2007; Nölke and Vliegenthart 2009; Schmidt 2002). A further substantive change was that scholars began to consider questions of institutional change, similar trends across VoCs, and, in light of the euro

crisis, to address the interdependencies between economies (Scharpf 2011; Hancké 2013a; 2013b; Hall 2014; Hall and Thelen 2009; Johnston and Regan 2016). Although the unit of analysis often shifted to higher-level institutions, such as labor markets or monetary integration, VoC research generally retained much of its supply side focus (Nölke 2019).

To overcome some of the extant shortcomings of the literature, including a lack of attention to interactions between economies and sources of demand for growth, CC scholars introduced insights from Post-Keynesian and Kaleckian macroeconomic theory to the study of CC. Some pioneering work in this regard includes Lavoie and Stockhammer (2012), Stockhammer, Durand, and List (2016), and Baccaro and Pontusson (2016), who identified the emergence of various growth models rather than VoCs. This new approach therefore provides a higher degree of flexibility as opposed to the rigid VoC framework, while analytically the most significant change entails a shift in analytical units to macroeconomic institutions, social blocks, and dominant sources of demand in an economy (Baccaro and Benassi 2017). Thus far, the literature identified growth models in which demand is driven either externally through exports or through foreign direct investments (FDI), or domestically via wages, investments, or private and public debt (Baccaro and Pontusson 2019). This most recent conceptual and analytical shift in CC marks the most radical departure from the original micro-foundations as well as functionalist and rationalist understanding of economic actors that characterized VoC research.

Nonetheless, despite this macro-centered analytical approach, CC scholars are aware that supply side implications still matter. In particular, Aidan Regan identified in a recent discussion forum that an understanding of "the trajectory of national growth regimes requires examining the variation in the dominant sectors in the economy, and the extent to which policy makers are anchored in and influenced by these firms" (Amable et al. 2019, 440). As a corollary, it makes it necessary to empirically study "how corporate business exercises its power," whilst methodologically it "requires using comparative case study methods, and qualitative process-tracing" (ibid.) that include the nation state as a unit of analysis and an understanding of how transnational capitalism is related to regional transformation. In this regard, Bohle and Regan (2019) have provided an excellent case study of the FDI-led growth models in Ireland and Hungary to highlight the role of business-state elites in shaping the politics of growth. Yet, due to the enormous influence that TNCs, as *sui generis* actors in the market economy, exercise on productive structures and GVCs, and therefore global trade flows and development, I would suggest going even further, by stressing that TNC conduct also requires an adequate theoretical underpinning within the growth models framework to understand the range of implications that arise for the literature.

3 An economic perspective on the internationalization of corporations

While we have seen a shift away from the supply side to the demand side in the CC literature, several CC scholars have started to attribute a more prominent role to productive sectors in the economy. This section provides a broad theoretical perspective as to how TNCs, as *sui generis*, yet highly influential actors in the economy, operate in global markets, before section 4 empirically demonstrates the scale and scope that these firms have reached.

The ontological foundation for the theory of the TNC departs from a world of imperfect goods and factor markets. If markets were highly or even perfectly competitive, there would be no need for corporations or TNCs, since all transactions would take place via the market, which is in theory the most efficient mechanism to allocate resources. Coase (1937) was among the first to address the question of why firms exist in the first place. His contribution was to show that market transactions are not without costs, as, on the most basic level, each transaction entails costs of "negotiating and concluding a separate contract" (ibid., 390–391). Although the extent of the costs varies depending on the market and transaction at hand, it is impossible to eliminate them. Coase theorized that firms will internalize production to minimize transaction costs as long as the transaction costs of the market exchange exceeded internalization costs. Stephen Hymer later added the implications of growing corporate power and control as key factors for the internationalization of TNCs.

In addition to transaction costs and factor market imperfections, a second important feature of TNCs is that they exist because the state assigns these entities a legal status. This allows them "to function as an economic actor able to hold property, make contracts and more generally assert its own legal interests, to the organizational structure of the firm" (Deakin 2012, 115). Thus, in any market economy, TNCs operate as legal persons, which gives them the right to own the means of production and its output. In conventional business theory, it is assumed that corporations seek to maximize the difference between the total revenues from selling its output and the total costs of production, i.e., they seek to maximize profits (Lipczynski and Wilson 2004). Despite other potential objectives for managers and the problems associated with the profit maximization concept, as outlined by Baran and Sweezy (1966) and Lipczynski, Wilson, and Goddard (2017), there is strong evidence for profit maximization to be the dominant objective for large firms, due to several reasons. First, and most importantly, in today's financialized capitalism the pressure from shareholders and activist investors and the fear of hostile takeovers push corporate managers towards maximum profitability (Zingales 2017). If a corporation has achieved a sufficient size and degree of market power, so that the risks of a hostile takeover are reduced, the extraction of rents through above-average mark-ups continues to be advantageous to the firm, as this leads to even more independence, for example, from capital markets, and reinforces the corporation's

political power (ibid.). In cases where profit maximization might be of temporary lower relevance vis-à-vis other objectives, it is important to note that it still serves as a performance benchmark (Lipczynski and Wilson 2004).

The basis for appropriating and maximizing corporate profits is the aforementioned market imperfections. More specifically, structural market imperfections that arise from economies of scale, knowledge advantages, distribution channels, capital market advantages, or product diversification, incentivize firms to expand internationally in order to exploit these advantages (Dunning and Rugman 1985). In his seminal contributions, Hymer (1976; 1979) argued that, although market imperfections and information costs are valid reasons for firms to internalize production, the main purpose of the expansion of the TNC is to facilitate corporate planning through acquiring control over the company's assets. Thus, as Buckley (2006) has put it, Hymer views the TNC, at its most fundamental level, as a "special case where market imperfections and the direction of the internalization of markets takes the firm's *control* across national boundaries" (ibid., 143, italics added).

Controlling assets across national boundaries in conjunction with the imperative of profit maximization for TNCs has important implications for the national dynamics of economic development. Following conventional economic theory, the degree of profitability in a market is inversely related to the degree of competition (Mankiw 2013). The more competitive a market is, the lower corporate profits will be and vice versa. Thus, in order to maximize profits, corporations will try to limit competition in the market in which they operate, and TNCs take this principle by definition beyond national boundaries. The ideal situation for each corporation is a monopoly, where profits are the highest. Relatedly, in a market characterized by monopolistic competition, each firm has a degree of corporate power and control.

According to Schumpeter's theory of development, the dynamics within capitalist economies depend on monetary conditions, notably the availability of cheap credit, and the overall market structure. As Schumpeter (1912) argues, economic progress can only take place in imperfect or oligopolistic markets. If markets are near perfect competition, firms cannot afford to waste their resources on experimenting with new methods of production, which lies at the core of his theory of "creative destruction." A certain degree of monopolistic competition, therefore, which entails economies of scale and synergies through collaboration of intelligent people within firms, is a necessary precondition for dynamic development and technological progress. Yet, on the other hand, Schumpeter (1942) was also aware of the dangers of monopolistic markets. If the most powerful firms prevented the introduction of new methods of production, market power would work to the detriment of progress. The investment and production decisions of TNCs in oligopolistic markets can therefore work in both ways, fostering growth and progress as well as impeding it. The way in which the largest productive units operate, however, is central to national and regional dynamics of development (Reinert 2017).

While economic progress depends on the presence and activities of large firms, TNCs will seek to integrate various national economies into their production and sales network and maximize profits by exploiting monopolistic advantages. In other words, these firms integrate national economies into GVCs, which are constructed with the objective to a) maintain a monopoly position and b) maximize profits. As TNCs grow in size and acquire more market power in international markets, the risks increase that inefficiencies may harm the profitability of the company. Hymer (1976) thus observed that TNCs tend to develop efficient and decentralized communication structures to enhance their capacities to plan and organize production to appropriate maximum returns. This necessarily comes at the expense of what are conventionally understood as market transactions, as it implies that the TNC "[enlarges] the domain of centrally planned world production and [decreases] the domain of decentralized market-directed specialization and exchange" (Hymer 1976, 45). Hence, the firm increasingly substitutes the market as the organizer of exchange. Moreover, the growth in the size and scope of TNCs can foster uneven development across national economies, since the TNC obtains and reinforces its market power through creating and perpetuating uneven access to and distribution of information and money – the key ingredients of capitalist power (Hymer 1972). The imbalances in market power, in turn, allow the TNC to retain its distinct absolute or monopolistic advantages, which it can exploit to maximize profits (Kindleberger 1969; Hymer 1976), and increases its political power (Zingales 2017). It is a self-reinforcing cycle that, at some point and in some economies, may lead to a situation where the power of TNCs exceeds those of national economies.

The power and control that TNCs have over the employment of productive resources affects the structure of GVCs and thereby the international economy at large. Thus, in a sense, the law of uneven development is a corollary of the law of increasing firm size, as the "corporate brain" (i.e., corporate board) plans and organizes the allocation of resources across national boundaries to maximize its own profits (Hymer et al. 1979). The decision-making procedure of the TNC spans several *strategic* decision-making levels to coordinate global business operations efficiently. On the highest level, where "level I" activities take place, corporate top management determines the TNC's general goals, plans, and strategies. These activities are located in the corporate headquarters in the TNC's home country, overwhelmingly found in the Global North. Beneath the top management, level II managers, whom Hymer refers to as the "corporate civil service," have the purpose of globally disseminating the information from the headquarters and supervise level III executives, who manage local day-to-day activities. Of course, there are differences in the specific forms that organizational structures take. However, regardless of how decentralized a TNC might be, it will never allow its subsidiaries or other units under its control to operate in a fashion contradictory to its principal strategies and goals as laid out in the corporate headquarters (Czinkota and Ronkainen 2007). Hence, the question of hierarchical power and corporate planning vs. the decentralized nature of exchange and production (directed by the price system) remains a core contradiction between the expansion of TNCs and the evolution of a "global market." Furthermore, since the highest value added activities, such as R&D, tend to be located

near corporate headquarters (UNCTAD 2018). This implies that developing a domestic base of TNCs is necessary to succeed in global markets and to retain some degree of autonomy as to which type of growth strategy a government wants to pursue.

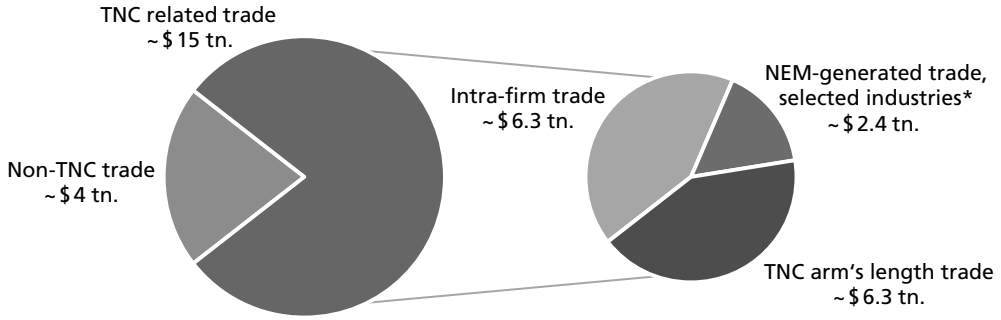
From a theoretical perspective, therefore, TNCs play an important role in the process of development and thus economic growth. It is important to note that the international expansion of TNCs is riddled with contradictions. On the one hand, there is the tension between corporate planning and market exchange, on the other, between economic progress and technological stagnation. In any case, however, the larger TNCs become and the more national economies are drawn into their production and sales network, the more national indicators, which are conventionally used to measure economic performance, such as GDP growth, trade flows, industrial production and so on become a function of corporate planning.

4 The footprint of transnational corporations in the global economy

In order to quantify the significance of TNCs as economic actors, this section expands on the above theoretical elaborations by providing a range of empirical evidence to illustrate the extent to which TNCs affect several macroeconomic outcomes. This is particularly important given that a comparatively small number of transnational firms have a disproportionate impact on macro outcomes.

First, looking at world trade and the degree of control of TNCs over both regional and global trade and production patterns, we find that, according to UNCTAD (2013a), TNCs are involved in 80 percent of global trade (cf. Figure 1). Out of this 80 percent, around 40 percent is imputable to intra-firm trade. This means that around one-third

Figure 1 TNC involvement in global gross trade (exports of goods and services) in 2010



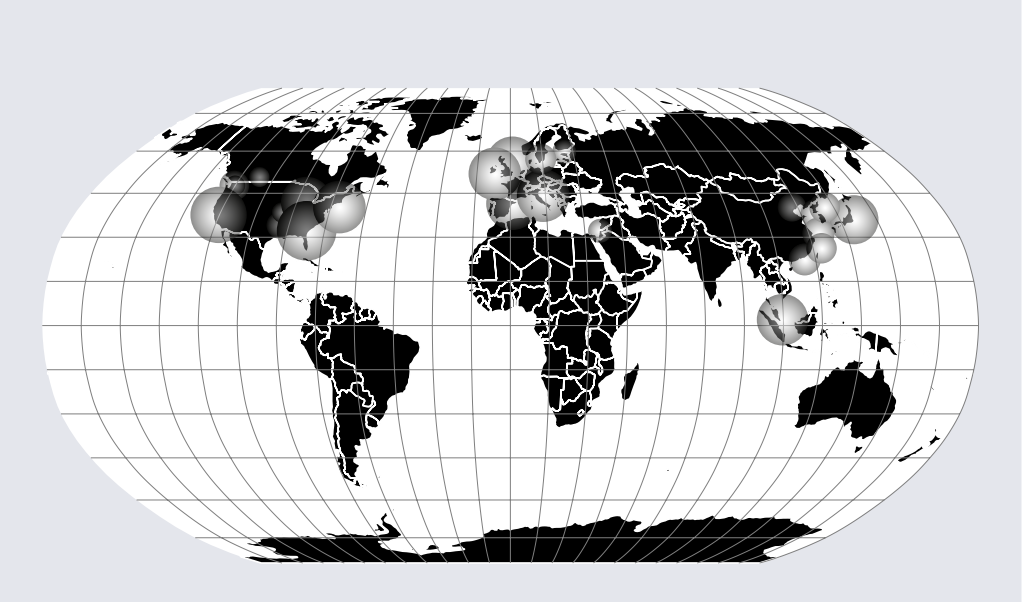
Note: *including contract manufacturing in electronics, automotive components, pharmaceuticals, garments, footwear, toys; and IT services and business process outsourcing. TNC arm's length trade may include other non-equity modes of trade.
Source: UNCTAD (2013, 135).

of total global trade is organized *within* firms and therefore outside the market. Ylönen and Teivainen (2018) have shown how wide-ranging the implications of this are, since internal transfer pricing – a direct function of corporate planning – substantially differs from market prices. While the remaining 60 percent of TNC-related trade is not directly under TNCs' control, the largest firms are still capable of exerting significant pressure on their trade partners, depending on the market structure and the nature of production (Gereffi, Humphrey, and Sturgeon 2005). With regards to the impact of European TNCs on trade statistics of national economies, UNCTAD (2013a) refers to France as a representative case and estimates that 64 percent of total exported and 62 percent of total imported goods "can be considered to be within the international production networks of TNCs" (ibid., 136). In the case of China, Flassbeck and Steinhardt (2018) highlighted that between 60 to 70 percent of exports were exports by western firms, which have outsourced their production.

More recent figures further highlight the inequalities and power imbalances in global export markets (UNCTAD 2017). UNCTAD (2018) calculations, using the Exporter Dynamics Database, show that, especially in developed countries, the distribution of exports is heavily skewed towards the largest firms, with more than 60 percent of a country's exports being imputable to the top 1 percent of exporting firms (which are often TNCs and constitute only a small share of all firms in a given country). In the overall sample, the share of the top 1 percent amounts to about 57 percent of total exports. Within this 1 percent as such, there is an even more pronounced concentration at the top. In a recent paper, Freund and Pierola (2015) find that the "export superstars," that is the largest 5 or 10 firms in an economy, account on average for 30 or 42 percent respectively of the total exports of this economy. In their sample of 32 countries, most of which were developing and emerging economies, the largest firm alone accounts for almost 15 percent of total national exports. The largest firm's influence on sectoral developments proved to be even more important. The authors estimate that about one-third of the variation of the exports-to-GDP ratio is due to the top firm, whereas the largest five firms account for nearly half of all variation. In other words, revealed comparative advantage *can* be imputable to the exports of a single firm. Hence, not surprisingly, the authors arrive at the conclusion that "models that treat individual firms as atomistic overlook the prominence of a few firms at the very top of the distribution for trade volumes and sectoral trade patterns" (Freund and Pierola 2015, 1031). While there are a larger number of exporting firms in more advanced economies than in less developed countries, they also tend to have a larger average size of exporters and a higher concentration of exports in the top 5 percent (Fernandes, Freund, and Pierola 2016). In highly developed and diversified economies, such as in Germany, for example, the top 10 exporters account for 23 percent of all national exports (UNCTAD 2018).

These secondary sources thus suggest that a small number of TNCs exert a disproportionate influence on global trade and national trade statistics. The central nodes of this global web of world trade, i.e., the headquarters of the largest and most powerful TNCs, are, notwithstanding the rise of the emerging markets, mostly located in industrialized

Figure 2 100 largest non-financial TNCs by size of foreign assets



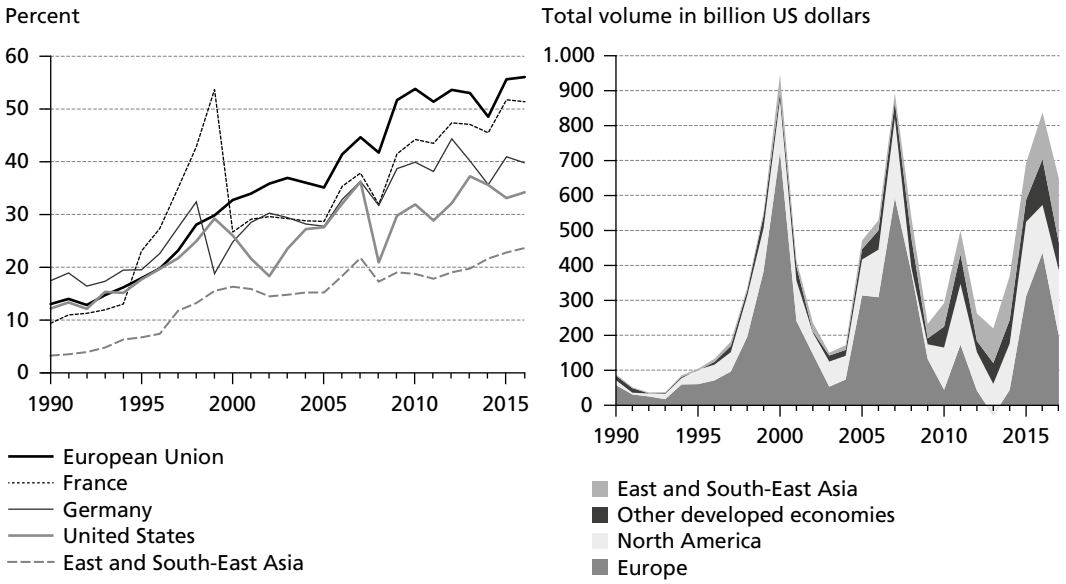
Data: UNCTAD (2018).

economies. Figure 2 shows a world map of the largest 100 non-financial TNCs ranked by foreign assets, illustrating that western Europe, the United States, and industrialized Asia (Japan and South Korea) comprise the largest sources of power. Only six companies from this sample are located in developing or emerging economies, all of which are located in China or Chinese-claimed territory. The share of TNCs from emerging economies among the Fortune Global 500 is higher (26 percent), yet still characterized by the prominence of Chinese TNCs (20 percent) and an extant North-South power imbalance (UNCTAD 2017).

Given that GVCs are governed by large transnational enterprises, this distribution contributes to an uneven development in several ways and puts restraints on countries in pursuing their own independent growth model. First, as research and development (R&D) is mostly located near corporate headquarters, technological progress primarily originates in TNCs' home countries, while a restrictive intellectual property rights (IPRs) regime often prevents its dissemination across other economies (UNCTAD 2017). Secondly, in addition to R&D, other high value added activities such as marketing and sales are also largely captured at home, so that host countries may struggle to upgrade their production if they are dependent on or dominated by TNCs (ibid.). Capital accumulation therefore continues in the developed world, whereas little Schumpeterian dynamics are created in developing countries.

On the other hand, however, the increased stock of outward FDI and the volume of mergers and acquisitions (M&As) indicate that TNCs have, over time, substantially expanded their control over productive assets abroad (cf. Figure 3). In other words,

Figure 3 FDI outward stock as percentage of GDP and value of net cross-border M&As by region of purchaser



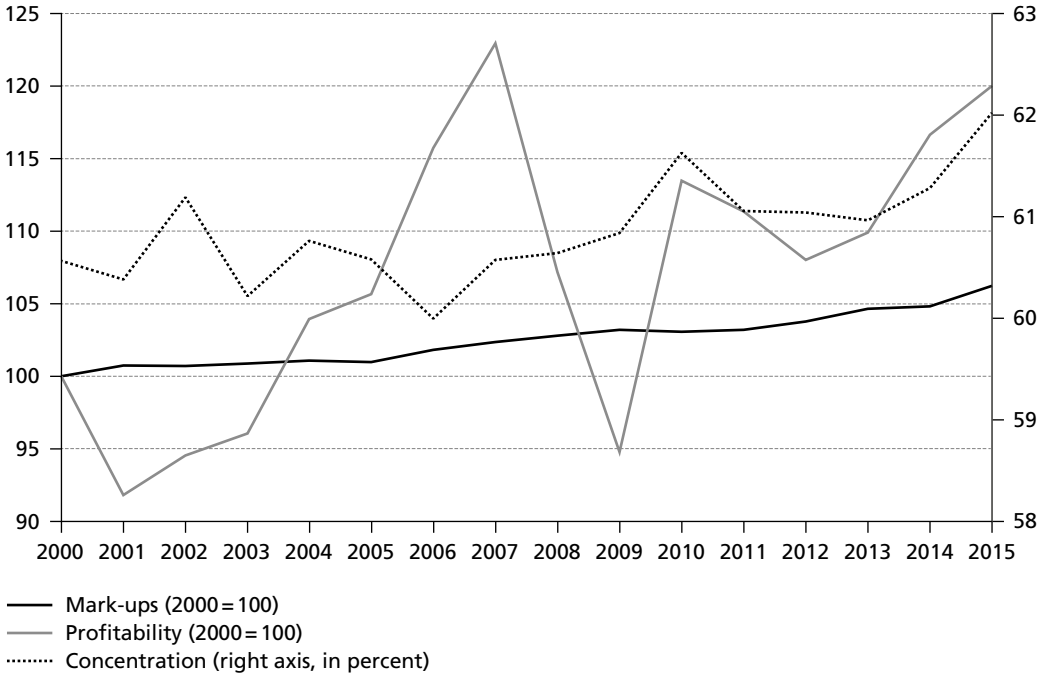
Source: UNCTADstat.

national production/growth strategies have become increasingly subject to TNCs' decision-making. Through their choices about their methods of production, which are linked to these investments, TNCs also affect overall regional development. Following Schumpeter's theory of creative destruction, development requires a constant renewal of the methods of production, a new combination of the input factors of labor and capital, to create a higher output and thereby increase productivity. If it is only the existing method of production, which is outsourced to low-wage countries and is not accompanied by any investments to improve productivity in the TNCs' home economy, regional development at large will, after an initial improvement in TNCs' host economies, run out of steam.

Additionally, through M&As and other forms of FDI, there is a self-reinforcing trend towards a growing size of TNCs, since an increase in corporate power by one firm forces others to react in similar ways (Toplensky and Barker 2018). The evident growth of corporations not only in high-tech sectors but across industries has led to a debate on the measurement and implications of corporate power (Autor et al. 2017; UNCTAD 2017; 2018; Díez, Leigh, and Tambunlertchai 2018; IMF 2019). While the value and shortcomings of these indicators are still disputed, there is a general consensus that concentration and abnormal profitability in most industries have substantially increased (Bouhia 2018). Even sceptics, such as Shapiro (2018), who regard such market outcomes as eventually positive (e.g., as a reward for innovation or efficiency), suggest that the developments in most sectors require a range of antitrust measures.

Empirically, there are various ways to illustrate how global markets have structurally changed. Conventionally, the literature uses corporate markups, which measure to what degree prices exceed marginal costs, or industry concentration ratios, which indicate the share of profit, sales, or assets that is accrued by a given number of firms (Lipczynski and Wilson 2017). As Figure 4 shows, IMF (2019) data covering one million firms across 27 countries, two-thirds of which are advanced economies, indicate that all these measures have increased.

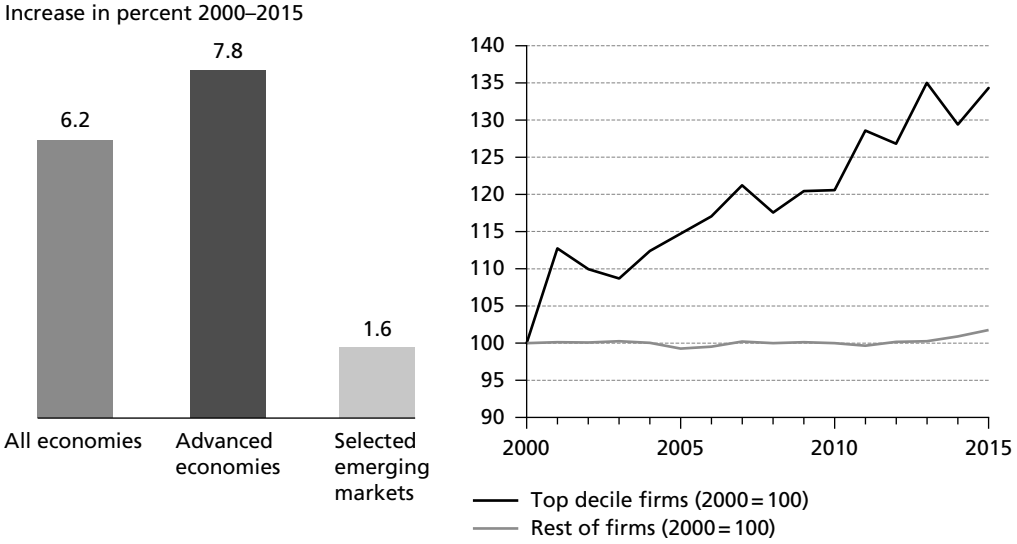
Figure 4 Mark-ups, corporate profits, and market concentration



Source: IMF (2019).

The comparatively moderate markup increase that we observe across industries hides the uneven nature of its distribution. First, we find that the increase in markups is substantially higher in advanced economies than in emerging markets. In the former group, they increased by 7.7 percent compared to 1.8 percent in the latter (cf. Figure 5). Moreover, within advanced economies, the increase in markups has been twice as high in the US as in the average advanced economy. Secondly, two-thirds of the increase in markups is imputable to incumbent firms, of which the most significant increases were predominantly found among the top decile. This "dominant force behind the higher aggregate markups" (IMF 2019, 60) increased its weighted average markups by 30 percent, whereas the remaining 90 percent increased their markups by a mere 2 percent, as shown in Figure 5.

Figure 5 Markup increases by country groups and distributions between firms

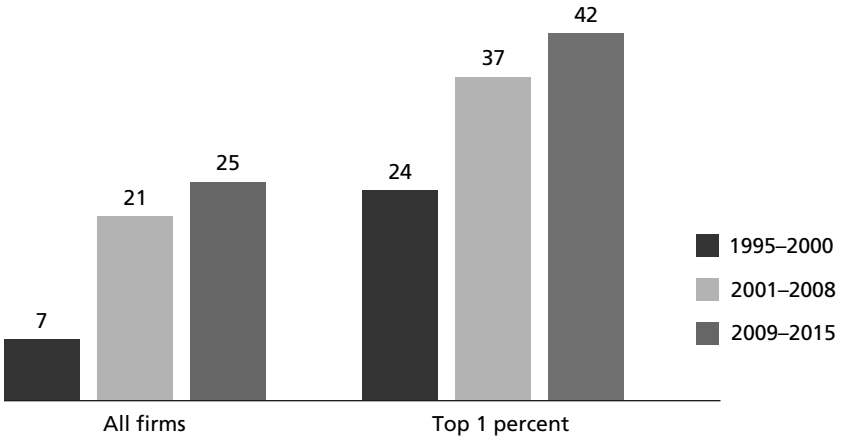


Source: IMF (2019, 60–61).

While the above indicators suggest increased market concentration and corporate power across the global economy, markups and concentration ratios have methodological limitations, which cast doubt over their interpretation as a manifestation of corporate power and rent seeking (Shapiro 2018). A more effective way to measure market power internationally and across industries is a combined analysis of so-called surplus profits and their persistence, as presented by Bouhia (2018). Surplus profits are "profits in excess of a competitive norm" (ibid., 5), defined as the median of return on assets (ROA), while their persistence provides an indication for permanent rents, which should actually be minimal in a competitive environment. His approach allows isolating the share of profits that corporations derive from economic rents rather than innovation or efficiency. The calculations based on the UNCTAD CFS database cover long-term financial statements of publicly listed companies in 56 developed and developing economies from 1995 (5,600 firms) to 2015 (30,100 firms). This size and scope therefore makes it possible to obtain an accurate picture that complements the insights presented by the IMF (2019). Bouhia (2018) shows that the top 1 percent of firms have a persistence value of 0.08, which implies that long-run profits exceed the competitive norm by 8 percentage points. For the bottom 90 percent, however, long-run profits are 15 percent below the competitive norm. Moreover, not only have firms on aggregate increased the share of surplus profits in their overall accounting profits (cf. Figure 6), but these surplus profits themselves prove to be a lot more persistent in the short run for the top 1 percent than for other firms.

This growing corporate economic power also translates into political power, which firms use to shape market regulations and developments in their favor, which in turn may affect national growth strategies. Hence, based on the understanding that the internationalization of TNCs implies an *internalization of the market*, we find wide-ranging

Figure 6 Share of surplus profits in accounting profits between 1995–2015 (in percent)



Source: Bouhia (2018).

evidence that these firms have succeeded in their endeavors to maximize profitability, obtain a higher degree of market power, and thus dominate international markets and production networks. This, in turn, means that market outcomes and national growth indicators are directly and substantially affected by the activities of these transnational economic agents. The epistemological implications for any type of economic analysis, therefore, which were offered by Baran and Sweezy (1966) around half a century ago, have regained some of their significance. In fact, based on the theoretical foundation of the TNC and the empirical evidence presented above, we can use this conclusion as the starting point for drawing implications for the growth models literature:

> Today the typical economic unit in the capitalist world is … a large-scale enterprise producing a significant share of the output of an industry, or even several industries, and able to control its prices, the volume of its production, and the types and amounts of its investments. The typical economic unit, in other words, has the attributes which were once thought to be possessed only by monopolies. It is therefore impermissible to ignore monopoly in constructing our model of the economy and to go on treating competition as the general case. In an attempt to understand capitalism …, we cannot abstract from monopoly or introduce it as a mere modifying factor; we must put it at the very center of the analytical effort. (Baran and Sweezy 1966, 6)

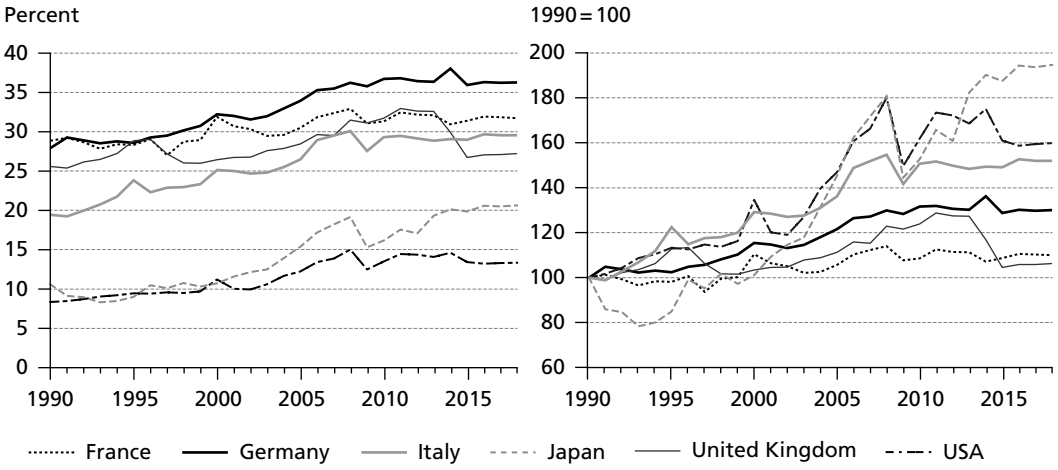
5 Implications for the growth models literature

The global economic integration, actively driven and shaped by TNCs and their governance of GVCs, has consequences for both developed and emerging economies alike. The growth models literature assumes that national or supra-national institutions are primarily responsible for nurturing certain sources of demand. Yet, as I have outlined in this paper, TNCs are highly influential agents on the supply side, which operate beyond

national boundaries and construct GVCs in accordance with their profit-maximizing objectives. The scale and scope of these transnational agents makes taking their activities into account almost inevitable if one is to obtain a comprehensive understanding of the dynamics within growth models as well as the interdependencies between them.

We can take export-led growth models as a starting point. The most important aspect to note thereby is that the share of foreign value added (FVA) in total value added (TVA) of national exports has substantially increased over the past 25 years. The UNCTAD-Eora Global Value Chain database, which provides key GVC indicators for 189 countries, illustrates this tendency nicely (cf. Figure 7). In 2016, the share of FVA reached more than 36 percent in Germany (up from 28 percent in 1990), 31 percent in France (29 percent in 1990) and 30 percent in Italy (19 percent in 1990). Economies that had a very low share in 1990, such as the US (8 percent) and Japan (11 percent), equally show a large increase in the share of FVA, with 13 and 21 percent respectively.

Figure 7 Share of foreign value-added in total value-added in exports of selected economies



Source: UNCTAD-Eora Database.

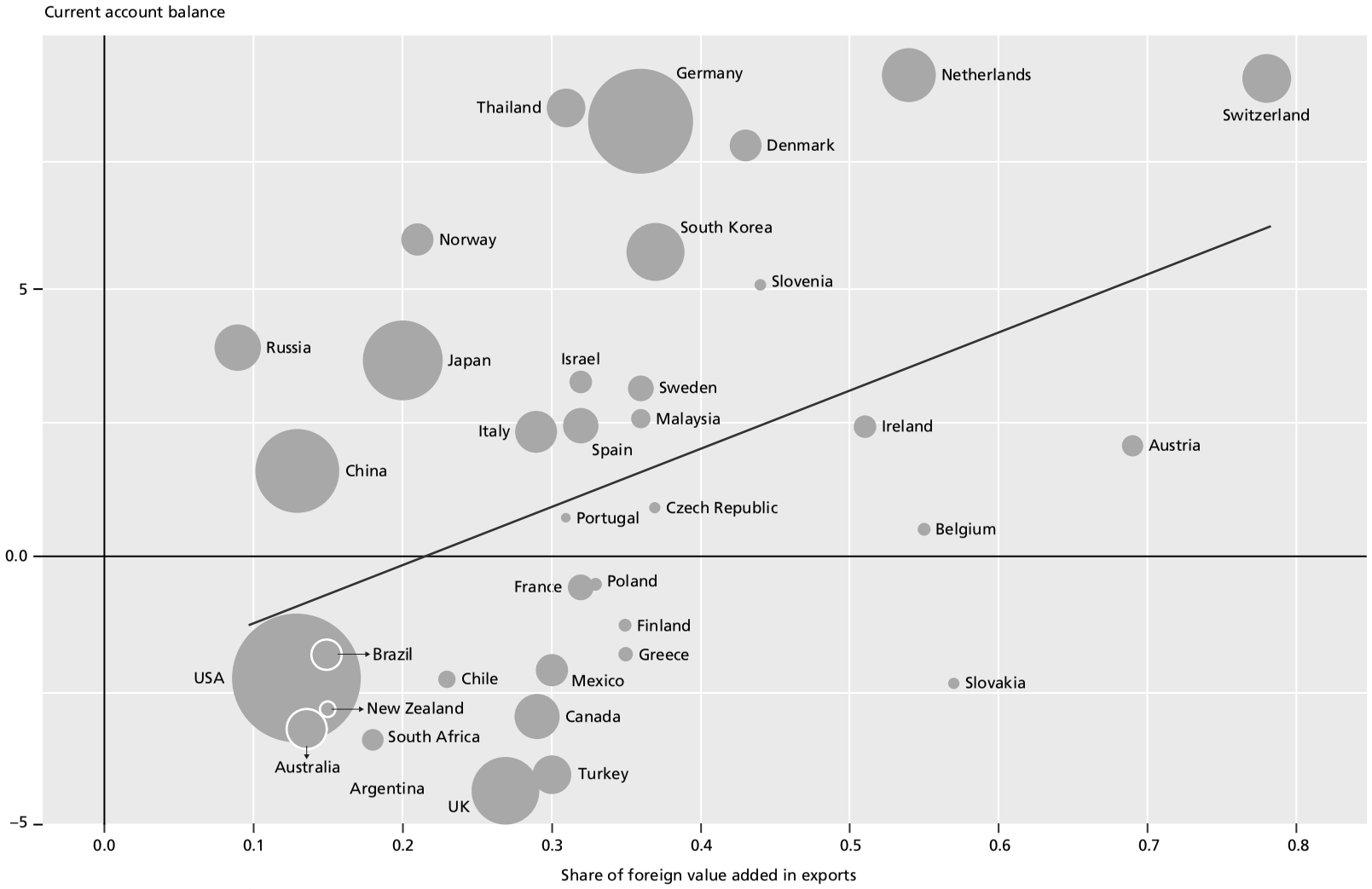
In other words, in highly export-led economies, such as Germany, more than a third of the value of its exports is produced abroad. To get an idea of the magnitude, it suffices to consider that VA criteria in rules of origin (RoO), as stipulated for example in the trade regulations of the European Union, often require a minimum of 60 percent of domestic content (UNCTAD 2013b). In purely hypothetical terms, a further increase in FVA of German exports could lead to a situation in which German exports would not qualify as exports originating in Germany, given that minimum originating requirements were not met. Due to the EU Single Market provisions, this will of course remain a hypothetical case, but it illustrates the extent of the internationalization of German businesses. What appears to be more important beyond this case, however, is that there is a tendency that countries with higher shares of FVA also tend to have higher current account surpluses. Figure 8 shows the average value of both indicators for the period

2015–2018, in order to smooth out any cyclical fluctuations, as well as the size in million USD of the given current account surplus or deficit. It appears as though companies in export-led economies rely on their international sourcing to maintain their competitive market position. Put differently, national exports are dependent on their embeddedness in international production networks and GVCs.

The high share of FVA and the global expansion of TNCs necessitate a reconceptualization of the functioning of world markets. As argued above, the goal for each corporation is to maximize profits, which requires a certain degree of monopolization and therefore market power. The prices in a market economy are generally set at a level that allows firms to sell their products while at the same time maximizing their income. On the one hand, overly expensive goods will not find any buyers. On the other, goods that are "too cheap" do not exist, since corporations would lose out on additional income. As profits can be increased only through a reduction in costs and/or an increase in revenues, TNCs will either internationalize to reduce overall cost structures, or, in order to boost revenues, attempt to conquer new markets and/or acquire market shares from rival firms. The growth models literature ought to take into account at least three possible consequences of such corporate conduct, if it is exercised internationally: a) the effects on the development of emerging markets, b) the implications for TNCs' home markets, and c) potential knock-on effects on other growth models.

The implications for a) and b) refer *inter alia* to the dynamics of economic development, higher corporate power and its influence on national and supranational politics, as well as potentially limited options for the sovereign development of a productive base. We can illustrate this tendency by using a simple example. Taking the simplest form of FDI, that is outsourcing the existing and capital-intensive mode of production to a low-wage country, TNCs can substantially lower their unit labor costs, without changing their method of production. If a firm outsources its production to a country where wages are at a level of 10 percent compared to its home economy, it lowers its unit labor costs by 90 percent vis-à-vis its domestic competitors. *Ceteris paribus,* this gives the TNC the opportunity either to increase its margins, and/or to cut down the prices to drive out competition. In both cases, it constitutes an absolute advantage which forces other firms to equally outsource their production or to devalue internally, if they want to stay competitive. Firms unable to match the competitiveness of their peers will lose market shares, which leads to further market consolidation and concomitant knock-on effects on the dynamics of domestic development, deindustrialization, and a potential race-to-the bottom in labor standards. Since the methods of production do not change in this scenario, the growth dynamics at large will stall after an initial boost in the host economy. The overall market structure and the productive capacities of individual economies will therefore be shaped by the extent to which they are able to retain domestic value and employment within the international value chain of the firm.

Figure 8 Relationship between the shares of foreign value added and current account surpluses (2015–2018 average, in percent of GDP)

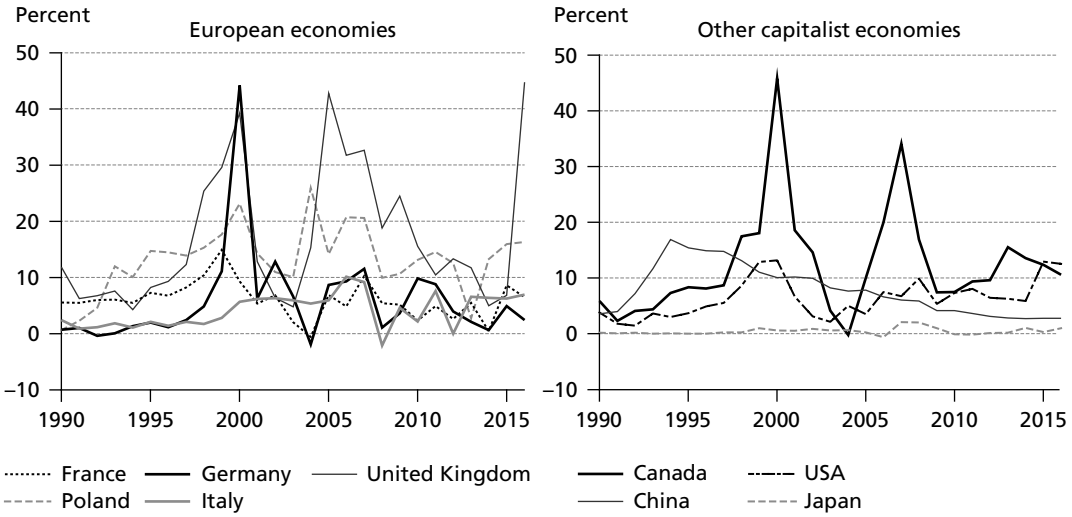


Source: UNCTAD-Eora GVC Database.

If foreign firms enter developing countries, on the other hand, combining cheap labor with capital-intensive technologies, this will make it impossible for firms in the host economy to compete, since the latter rely on methods of production that entail overall lower productivity, which is the root cause for the overall lower wage level (Flassbeck and Steinhardt 2018). In this case, the foreign firm drives out domestic firms through much lower prices and/or much higher profit margins. In a sense, a certain type of growth (or stagnation) model will be imposed upon the national economy, in which the decision-making unit, the corporate headquarter, lies outside national boundaries, so that the chances for the emergence of an independent growth model or industry are limited. Only by ensuring that wages follow productivity developments and the benefits of inward FDI, especially the diffusion of knowledge, are spread among domestic firms, is it possible to develop an internationally competitive domestic base of production and to gain more autonomy in setting growth strategies (Wade 2010). Both of these factors explain why China, which has forced foreign TNCs to source domestically as well as to transfer knowledge and technologies to domestic firms and thereby enabled the build-up of its own base of influential TNCs (Dahlman 2009; Felipe et al. 2010), managed to switch its growth model from an export- and FDI-reliant model to one that is more oriented towards domestic consumption.

Another means to judge the influence of foreign capital on domestic development is to look at the share of FDI in relation to gross fixed capital formation (GFCF). GFCF measures total net capital expenditure in a national economy, including the spending on transport equipment, new plants and machinery, new buildings, and so on. It is therefore a key indicator for the development of the capital stock, which in turn determines the overall productivity and therefore prosperity in a national economy. Since not all FDI translates into capital investments, as the aggregate FDI data include large equity purchases as well as M&As, the interpretation of the data requires some caution. Nonetheless, the data in Figure 9 suggest that the share of FDI in GFCF is substantial across various types of capitalist economies, with the exception of Japan and, more recently, China. Taking the base level of development into account, we find that in countries such as Poland the development of the capital stock was generally driven by foreign capital. In countries such as the United Kingdom the state and domestic businesses also left the GFCF to foreign firms (albeit the inflow of capital was very volatile), but the basic capital stock in this country was a lot more developed to begin with. The way in which national economies therefore are dependent on and penetrated by foreign capital limits the options to switch from a growth model reliant on foreign capital to a higher value-added or domestic consumption-led one. This data too supports the thesis that the diminishing influence of TNCs on Chinese development allowed the state to adjust its policies (especially wage policies) and change its growth model. In Poland, an exemplary case for Eastern Europe, the dependence on foreign capital remains high, and the region faces yearly capital outflows of 4–7 percent of GDP, which dwarf the yearly contributions of 1–2 percent of GDP these countries receive from the EU (Piketty 2019).

Figure 9 FDI as a share of gross fixed capital formation in selected capitalist economies from 1990–2016



Source: UNCTADstat.

Finally, including TNCs as a unit of analysis will allow CC scholars to better understand how interdependencies in oligopolistic markets, as theoretically outlined by Knickerbocker (1973), can have knock-on effects on national growth models. Due to the high interdependencies in such markets, the decisions and performances of TNCs in one country will inevitably affect the conduct of its competitors in other countries, leading to a restructuring of value chains and reorganization of production and sales – with all the consequences for given growth models. If TNCs headquartered in a given economy begin to lose market shares due to a move by their international competitors, they will adapt strategies to secure their survival and profitability. If an internal devaluation does not suffice, TNCs will choose to relocate production to low-wage countries. In the manufacturing and other tradable goods sector, the effects will entail widespread deindustrialization, lower potentials for future productivity gains, lower real wages, and therefore weakened domestic consumption and employment. Given that the productive bases are transferred abroad and wage disparities remain high in most regions, it is unlikely that exports will pick up quickly.

One industry, which was the backbone of European economic development, namely the automotive industry, provides a vivid example of these dynamics (Celi et al. 2018). German TNCs used Eastern European integration to their supply chains to maintain their competitive export position in global markets. As a consequence, French and Italian TNCs, which were unable to compete with the German level of competitiveness in the volume segment, but wanted to retain their margins nonetheless, outsourced not only the low value added part of the production (as the German firms did) but the entire chain of production. As a corollary, the trade balance in this sector depleted, since consumers buying French and Italian brands were in fact importing cars from abroad, while the level of industrialization, wages, and employment in the automotive industry

in Italy and France were put under pressure. Germany, on the other hand, was able to secure its hypercompetitive position in the industrial center of Europe, with the FDI-led growth models of Eastern Europe remaining stuck in a subservient relationship of dependency on German industrial capital. With the advent of electrification, however, also this model in Germany might change. In 2018 and 2019, the production of automobiles in Germany declined, while the global production of German manufacturers continued to increase (Bloomberg 2019; Höltschi 2020). The Covid-19 crisis makes future predictions impossible, yet a return to previous levels of production in Germany is unlikely to occur.

These dynamics, which illustrate how decision-making in headquarters of internationally operating firms affects national and regional development, show how including TNCs in the conceptual framework of growth models can shed light on the interactions between different growth models, and explain why some countries may struggle to adapt and change growth strategies, while others fail. Additionally, the way in which TNCs integrate national economies into their sales and production network plays a central role in understanding regional dynamics of economic development (Reinert and Kattel 2007). Thus, although the domestic institutional support that firms receive remains highly important, the international dimension of production, i.e., GVCs and TNCs' conduct, have wide-ranging consequences for national growth models and the balance of power between states and international capital.

6 Conclusions

As TNCs have become the dominant force in global markets, the growth models literature ought to incorporate these entities, conceptualized as active and powerful players in the economy, in their analytical framework. The hitherto dominant narrative of sectoral blocs or homogenous producer groups obfuscates the significant power differences between a comparatively small number of internationally operating firms and other actors in the economy. Moreover, it ignores the high degree of embeddedness of growth models into GVCs that are governed by these TNCs. Given that a third of world trade is imputable to intra-firm trade, i.e., trade *outside* the market, and a handful of companies often account for a disproportionate share of total national exports, TNCs deserve a more central analytical role – both in terms of their impact on the market and on political activities.

Taking TNCs into account can provide a better understanding of the dynamics within and interdependencies between growth models, and thus help to answer the question why certain countries fail and others succeed in changing growth models. With market concentration on the rise and further consolidation in most industries being likely, primarily due to high investment requirements for future technologies, the importance of

this question will remain with CC scholars for the foreseeable future. Additionally, the advancement of digitization and key technologies, such as artificial intelligence, could further increase the divide between developed and developing economies, and thereby affect the efficacy of the growth strategies that either seek to adopt. In the decades to come, the question of growth (and the nature thereof) will be debated in a fundamentally different context, of which TNCs will remain an important and active part. The research agenda that emerges out of this analysis implies that CC scholarship would benefit from comparative case studies that engage in sectoral industrial analysis *and* the role of TNCs therein. In other words, this paper suggests opening up the dimension of the wider industry and value chain structure, in which any given growth model is embedded, to make up for the shortcomings of the current conceptual framework.

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