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October 2020 ESSAYS ON TRUE DEMOCRACY AND CAPITALISM

Back to Production: An Analysis of the Imperialist Global Economy[1]

Intan Suwandi

Flipping through the pages of Harvard Business Review in the last few years, there seems to be some worries expressed by the cheerleaders of capital regarding the future of globalisation (see e.g., Bower, Leonard, and Paine 2011; Bremmer 2014). In their eyes, there are obvious threats to global market capitalism. For example, the increasing trend of what they call "state capitalism" – as shown by the rising power of "emerging markets" like China, Russia, and Brazil – is deemed to provide serious obstacles to the welfare of Western multinational corporations. What is interesting is that these perspectives acknowledge the growing income and wealth inequalities – a phenomenon that, they are afraid, "makes a mockery of the idea that economic growth benefits all." But what they are really afraid of is actually how these growing inequalities can lead to "populist politics" that would result in "harmful government interventions" including the "overregulations of market transactions, confiscation of property, and other abrogations of property rights" (Bower et.al. 2011).

Debating whether or not this "guarded globalisation," as Ian Bremmer calls it, is really happening is beyond the scope of this paper. But the worries are clear: capital wants to make sure that multinational corporations can engage in capital accumulation without significant disruptions. Several suggestions are given, ranging from the need for businesses to engage in collective action and become leaders in defending the market, to the strategic move of "holding hands" with local partners to ensure the success of foreign investments – especially in countries where "state capitalism" thrives. These examples can illustrate the never-ending quest for profiteering by global North capital in the capitalist world economy, by navigating their way to invest – either directly or indirectly – in the global South. This shows that, despite

[1] ↩ Some parts of this paper are taken form the author's previously published article title "Behind the Veil of Globalisation", Monthly Review 67, no.3 (July-August 2015): 37-53.

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their relentless attention to the market, the focus lies on global capital's effort to export capital through various means, including by outsourcing their production to the global South. Thus, if we want to critically evaluate "globalisation," we cannot merely see the transactions that happen in the marketplace. Instead, we have to go to where commodities are produced, or – as Marx famously said – to the hidden abode of production.

Several mainstream theories – such as global commodity chain and global value chain perspectives – have tried to offer an examination of globalised production. But they necessarily fall short of the reality that Marxist analyses try to uncover, namely the extraction of surplus from the global South associated with: (1) the development of monopoly-finance capitalism and the oligopolistic power of multinational corporations, (2) a process of what financial analysts refer to as "global labour arbitrage," and (3) the value of labour power. Based on this political-economic approach, we can bring the imperialistic characteristics of globalisation out into the open.

As emphasised by Prabhat Patnaik, "capitalism without imperialism is inconceivable."

Understanding Globalisation: The Empire's New Clothes?

Globalisation has accompanied the development of capitalism throughout history. As Harry Magdoff (2013:24) once said: "Capitalism begins as a world system and must live as a world system." Moreover, the essential feature of a capitalist world economy, writes Immanuel Wallerstein (1979:15), is that "production is constantly expanded as long as further production is profitable, and men constantly innovate new ways of producing things that will expand the profit margin." The accumulation of capital, in other words, has always meant expansion – and this process of expansion is imperialistic in its characteristics. As emphasised by Prabhat Patnaik (2011), "capitalism without imperialism is inconceivable." From the very beginning, in the words of Samir Amin (2001:6), "imperialism is inherent in capitalism's expansion." Starting from the conquest of the Americas, to the colonial subjection of Asia and Africa, to the current neoliberal globalisation, Amin argues, the goals of capital remain intact: to control the expansion of markets, to plunder the earth's natural resources, and to exploit the labour reserves in the periphery – even when they are pursued without the presence of "colonies."

But even when we understand that global capitalist expansion is not new, we can still agree that the development of such expansion is marked by new characteristics – and examining these historically specific characteristics can highlight the imperialistic "nature" of capitalism throughout history, including the development of our current global economy. Relatively distinct patterns in the current wave of globalisation that started in the late 1970s/early 1980s can be seen in both the spheres of production and finance: the dramatic increase in trade and direct foreign investment flows, along with the massive expansion of international portfolio flows. What is especially important to note is the accelerating pace of offshoring – especially in the manufacturing sector – whether done through arm's length contract (offshore outsourcing) or through intra-firm trade, i.e., within the confines of a single multinational corporation (Milberg and Winkler 2013).

Foreign direct investment (FDI), which is tied to intra-firm trade, has been rising "much faster than world income" in the last few decades, with an increasing trend in FDI inward stock – from 7 percent of world GDP in 1980 to about 30 percent in 2009 (Foster and McChesney 2012:105). However, direct investments do not tell us the complete story of offshoring. Through subcontracting practices, firms can capture "extremely high profit margins through their international operations and [exert] strategic control over their supply lines – regardless of their relative lack of FDI." Even multinationals with high levels of foreign direct investment are also major international subcontractors (Foster and McChesney 2012:111).

The emphasis here is the fact that both increases (in intra-firm trade and contracting practices) signify globalised production, with increased production in low-wage areas in the global South. It is not a secret that processes such as offshoring mark the relationship between capital and labour on the global level, with some distinctive patterns throughout the last twenty-five years. One of these patterns is the booming of export-oriented industries in the global South, focused on the manufacturing sector. As Edna Bonacich and her coeditors claim in Global Production: "An important feature of the new globalisation is that [multinational corporations] are searching the world for the cheapest available labour and are finding it in developing countries" (Bonacich, Cheng, Chinchilla, Hamilton, and Ong 1994:16). A big portion of global foreign direct investment, for example, comes to the global South, starting with the "slow and steady rise" of these countries' share of world foreign direct investment in the late 1980s. In 2010, "for the first time, more than half of all FDI went to third world and transition economies" (Hart- Landsberg 2013:18). A 2003 World Bank report claims that foreign direct investment is the biggest source of external funding for developing countries (Solomon 2010). Unlike direct investments, subcontracting or outsourcing is hard to measure, but an estimate shows that "at least 40 percent of the world trade is linked to outsourcing" (Foster and McChesney 2012:109).

One significant impact of the patterns above is the formation of a global labour force. It is not an exaggeration to say that the current globalisation refers to a phenomenon that has restructured global production processes – with distinct capital-labour relations. On the global level, 78 percent of the world's industrial workers now live in the global South, compared to 34 percent in 1950 and 53 percent in 1980 (Smith 2007). At this rate, manufacturers became "the chief source of the third world's dynamism" both in exports and in production, especially in East and Southeast Asia (Gereffi 1995:107). By 1990, this region's GDP share in manufacturing was higher than other regions. A report by the Asia Development Bank shows that most countries in Southeast Asia, particularly those that are considered developing, experienced an increase in their manufacturing output shares from the 1970s to 2000s (Felipe and Estrada 2007).

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Analyses of these new trends in the global economy have been offered not only by radical scholars, but also by mainstream analysts. Among them are global commodity chain (GCC) and global value chain (GVC) theorists. While the concept of "commodity chains" was coined by Terrence Hopkins and Immanuel Wallerstein in the late-1970s – who also developed the theory in line with the world- system perspective – the later-developed GCC and GVC perspectives focus more on the patterns that arguably mark the current global economy.[2] One of the patterns often discussed as a novel process is a trend in the national development strategies of most developing countries that started in the 1970s, namely, the shift from import-substituting industrialisation (ISI) to export-oriented industrialisation (EOI) (Gereffi 1994). In relation to this, the discussion of offshoring/outsourcing occupies a central place in the field of global chains research. Offshoring – defined as the "decision to move the supply of goods and services from domestic to overseas locations" – is not, in itself, a new trend (Gereffi 2005). But the GCC and GVC scholars emphasise that a distinctive feature of the current globalisation is the increase of international production and offshoring practices to the global South in the last few

[2] ↩ See Jennifer Bair (2005, 2009) for a comprehensive explanation of the global commodity and value chain theories, along with their development and diversity.

decades. Trade has occurred through increasingly sophisticated value chains, with higher levels of organisation, in which the core relies more on imported inputs of goods and services from low-income countries (Milberg and Winkler 2013).

In discussing these patterns, both the GCC and GVC proponents bring up the issue of multinational corporations and their role in global commodity or value chains. Gary Gereffi, one of the main proponents of the GCC perspective, for example, claims that "transnational corporations" [TNCs] are "the chief economic organising agent in global capitalism." He insists that the GCC framework is distinguished from previous theories (such as dependency theory) precisely because those theories "did not have a good way to tie the activities of TNCs into the structure of the world economy" (Gereffi 1995:103). Further, Gereffi (2005) emphasises the emergence of corporations that do not manufacture their own products. He claims that this is central to the "new trends" of offshoring – such corporations, which are usually large retailers and branded marketers, can be referred to as the "new drivers" in the global chains that have existed for the last couple of decades. Such corporations engage in outsourcing practices in "buyer-driven" chains in which they play a pivotal role in setting up decentralised production networks in exporting countries, typically in the third world (Gereffi 1995). They are actually not real manufacturers, but merely merchandisers, i.e., companies who "design and/or market, but do not make, the branded products they sell" (Gereffi 1994:99). This suggests that, as opposed to "producer-driven" chains that are characterised by FDI, buyer-driven chains, according to this framework, are characterised by arm's length contracting (subcontracting).

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This discussion of the role of corporations is further emphasised in the analysis of William Milberg and Deborah Winkler, both proponents of the GVC perspective. They argue that a shift in corporate strategy – with offshoring as an integral part of this shift – is a key driver in the "new wave" of globalisation. The strategy involves a search for lower costs and greater flexibility, as well as a desire to "allocate more resources to financial activity and short-run shareholder value while reducing commitments to long term employment and job security" (Milberg and Winkler 2013:12). However, the above treatment of multinational corporations in the discussion of global commodity or value chains is unfortunately still superficial. Despite several seemingly critical claims by GCC and GVC theorists, their perspectives still lack the critical apparatus necessary to bring out the class relations – especially those between global capital and global South labour – that underlie the globalisation of production processes.[3]

The emphasis on the decentralised character of buyer-driven chains, for example, may underestimate the degree and means of control exercised by multinational headquarters. Even under supposedly dispersed networks of commodity chains that rely on subcontracting practices, multinational corporations continue to hold a high level of control over such practices, albeit indirectly. Further, since subcontracting is not typically associated with the "standard definition" of what makes corporations multinational (which is based on FDI), such indirect control is overlooked – thus, it does not reveal the "true extent" of the power held by multinationals (Foster and McChesney 2012).

The question is whether the power of multinationals is weakened just because production is increasingly "globalised." Radical economists have argued that the emergence of dispersed networks of commodity chains does not necessarily mean that power has been dispersed equally around the globe in the sphere of production. Ernesto Screpanti, for

[3] ↩ It is worth noting that, compared to the GCC framework, the GVC framework deals more directly with global exchange value. Studies of value chains (see e.g., Linden, Kraemer and Dedrick 2009; Xing and Detert 2010), such as the ones that examine the production of the iPod and iPhone, have provided sophisticated criticisms of value- added concepts in mainstream economics (which will be discussed in the last section) – although these studies themselves are not particularly critical of capital.

example, debunks the myth of the trans- nationalisation of big firms in the globalisation of production. By incorporating several studies, Screpanti (2014) shows that – despite the common belief that big firms now adopt network-based structures and cease to be hierarchical – multinational corporations are still pretty much national in their governance structure. The main point here is the fact that the center of management and advanced technological research of multinationals is still concentrated in the developed global North. As Screpanti concludes: "Innovations, then, are transferred, through direct investments, into various emerging and developing countries, where they produce a derivative form of technological research." This phenomenon can be illustrated by China. It is true that China has produced a growing number of patents. However, what appear to be "innovations" created from this country are mostly "improvement, adaptation, and creative imitation of imported technologies" (Screpanti 2014:18-19).

Another radical economist, Martin Hart-Landsberg, also shows that the designation of China as "the largest exporter of high-technology goods" in 2006 is misleading. Citing existing studies, Hart- Landsberg demonstrates that 85 percent of China's high-technology exports are produced by multinationals. Moreover, the amount of foreign control of China's production of high-technology exports has increased – indicated by the increase in the share of such exports produced by foreign-owned corporations, from 55 to 68 percent within the span of seven years, from 2002 to 2009 (Hart-Landsberg 2013:45). These facts suggest that power is not decentralised in globalised production, and the headquarters of multinationals, in the words of economist Stephen Hymer (1979:4), still "rule from the tops of skyscrapers; on a clear day, they can almost see the world."

But mainstream analyses – like those offered by GCC and GVC theorists – largely miss this relationship between the power held by multinationals and the unequal relations between the global North and the global South. Much of their discussion regarding the inequalities created by the world economy is limited to what developing countries can do to, basically, "catch up" to a more profitable "node" or "box" within the chain – a concept most commonly associated with modernisation theory. This can be exemplified by how Gereffi (1995) examines the "upgrading" success experienced by newly industrialised countries in East Asia, such as Taiwan and South Korea, through the process of "triangle manufacturing." This process is seen as a means for these countries to move up from suppliers for U.S. retailers and branded marketers to "middlemen" in buyer-driven chains (whereas production is now shifted to the periphery, such as China, Indonesia, and Guatemala). However, the inequalities that mark the "new wave" globalisation cannot be examined (let alone solved) merely by looking at the movements of actors within or between chains. These inequalities are rooted in the long history of the development of global capitalism that is imperialistic in its characteristics.

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Monopoly-Finance Capital, Stagnation, and Multinational Corporations

Global commodity or value chain theorists seem to ignore the larger historical context of capitalist development that underlies the rise of multinational corporations and the expansion of their power. Through this explanation, we can also examine the characteristics and structures of multinationals that can in turn help us analyse their role and position in the global economy. Multinationals do not come out of the void – their existence and evolution cannot be separated from the development of monopoly capitalism. V.I. Lenin (1939) provided a theory of imperialism that argued that the existence and practices of monopolistic entities—in his words, "monopolist combines"—in capitalism suggested that "free competition" had become obsolete.

Echoing Lenin, Paul Baran and Paul Sweezy (1966) argue in Monopoly Capital that capitalism can no longer be examined using a competitive model of market relations. One of the main reasons is the dominant position held by giant multinational corporations, whose defining power is the ability to create monopolies in prices. Under monopoly capital, corporations "can and do choose what prices to charge for their products," as the system bans the practice of "price cutting" under the assumption that it would lead to "economic warfare" among oligopolies (Baran and Sweezy 1966:57-8). This ability was non-existent in the traditional free competitive system. As a result, while price-cutting – where this would seriously endanger profit margins – rarely happens, "price increases by firms generally occur in tandem, most commonly under the price leadership of the largest corporation in the industry" (Foster, McChesney, and Jonna 2011:11). As demonstrated by the issue of price control, even when monopoly capital no longer plays by the rules of the competitive model, it still follows the rule of profit maximisation. In many ways, it indeed intensifies it, and presents a key contradiction of monopoly capitalism: "that of rising surplus and the associated problems of surplus absorption" – a problem that generates the tendency to stagnation (Foster, McChesney, and Jonna 2011:3).
Baran and Sweezy (1966:108) even call stagnation "the normal state of the monopoly capitalist economy" since it has become its defining, most persistent characteristic. In an oligopolistic system, high productivity and the ban on price-cutting together create such a huge and growing surplus that it cannot be absorbed by investment and consumption. In addition, even when we add government civilian spending – a practice constrained by capital's "neurosis" towards state intervention in private profit – the surplus still cannot be absorbed properly. This results in the dependence on great waste in areas such as military spending and speculative finance, which function as "external stimulants boosting production" – but stimulants are just drugs: they are "bound to prove inadequate to support the economy over time, since bigger and bigger injections [are] needed just to get it going" (Foster and Magdoff 2009:15).

It is important to note that to understand the monopoly capitalist economy and its "normal stagnation phase," we should first of all keep in mind what mainstream economists do not acknowledge – namely, the separation between the two spheres of economy: production and finance. As discussed by Sweezy and Magdoff (1987) in their essay "Production and Finance," this separation between the two spheres is central to monopoly capital. Unlike what occurred in the earlier development of capitalism in the U.S., the financial realm has become more and more significant – quoting Veblen, the "captains of finance... soon rose to the top of the capitalist hierarchy of wealth and power" (Sweezy and Magdoff 1987:95). As mentioned above, under monopoly capital, a large part of money capital – i.e., money invested to earn more money – is not directly transformed into productive capital serving as a means to create profit from the extraction of labour power. It is instead used to buy "interest-bearing or dividend- yielding financial instruments" (Sweezy and Magdoff 1987:96). With the rise of giant corporations, the number of these financial instruments increases. As a result, money capital fuels the growth of financial markets that "increasingly take on a life of their own" (Sweezy and Magdoff 1987:97).

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But the most important point offered by Sweezy and Magdoff is about the ways in which these separate spheres of production and finance are interrelated – and how the dominating presence of finance capital reinforces the problem of stagnation in the realm of production. Since the abundant and ever-growing profit cannot be absorbed by investments and consumption, the financial sector becomes the "preferred" means of absorbing surplus value – it uses a lot of resources, and it "does its part to offset the surplus productivity of modern industry" (Sweezy and Magdoff 1987:102). However, the financial sector does not produce any commodities with significant use value. One of the main consequences is that the production sector becomes idle – investments hardly flow to the production sector, and demand becomes stagnant. In turn, the cost of production is trimmed, and workers are usually the main victims of this result; their wages are cut or they get laid off. Another consequence is the rise of "speculative psychology" in the financial community – the search for bigger profits through quick, speculative means that result in crises. In other words, the dominating presence of the financial sphere perpetuates stagnation in the sphere of production, and inflation in the financial sector.

From this discussion, it is clear that stagnation in the production realm has led to financialisation. That means that our modern capitalist economy has mutated into something different than the "competitive species" – it has even become more than a monopoly capitalist system as Baran and Sweezy envisioned in the mid 1960s. In fact, it has turned into what Foster and Magdoff (2009:64) call "monopoly-finance capital":

> The stagnation impasse described in Monopoly Capital has worsened: the underlying disease has spread and deepened while new corrosive symptoms have come into being. On the other hand, the system has found new ways of reproducing itself, and capital has paradoxically even prospered within this impasse, through the explosive growth of finance, or what Sweezy was to refer to as "The Triumph of Financial Capital." We will provisionally call this new hybrid phase of the system "monopoly-finance capital."

However, many economists, even ones on the left, often disregard the fundamental logic of financialisation. They instead see it as the culprit that causes stagnation, while disregarding the real problem. In this view, phenomena such as wage stagnation and increased income inequality are a result of "changes wrought by financial sector interests" (Foster and Magdoff 2009:106). The idea can be traced back to Hyman Minsky, who puts financialisation in the execution chair and focuses on the financial instability argument. He claims: "capitalism is a flawed system in that, if its development is not constrained, it will lead to periodic deep depressions, and the perpetuation of poverty" (quoted in Foster and Magdoff 2009:17). Note that this argument does not claim that depressions or poverty are inherent to capitalism – the key here is constraint: "A major concern was that the government as lender of last resort would not be able to keep up with ballooning financial markets unless some restraints were imposed on the latter" (Foster and Magdoff 2009:17). Hence, this theory assumes that as long as capitalism is restrained, it will not have any destructive consequences.

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Magdoff and Sweezy refute this argument by pointing out that Minsky missed the fact that stagnation keeps reemerging. Financialisation is actually a "response" to the stagnation that occurs in the production realm. In other words, to "compensate" for the stagnation in the production process, financialisation (speculative finance) is used to accumulate capital, or as an "engine for growth" (Foster and Magdoff 2009:18). Adopting this approach, Foster and Magdoff (2009:19) argue that

> A realistic assessment of recent economic history is best conducted within a framework that focuses on the interrelationship between the stagnation tendency of monopoly capital and the forces that to some extent counter it. The largest of the countervailing forces during the last three decades is financialisation – so much that we can speak today of "monopoly-finance- capital."

Thus, the conclusion is that "stagnation generates financialisation," which is the main reason why crises keep happening (Foster and Magdoff 2009:106). When emphasising that stagnation (in the production sector) and inflation (in the financial sector) can continue for a very long time, Sweezy and Magdoff (1987) remind us that, at the core of the problem lies the "mantra" of capitalist ideology: it takes for granted that the normal state of the economy is prosperity based on vigorous growth. Deviations from this norm – so the argument goes – "are temporary and bound to be reversed" (Sweezy and Magdoff 1987:105). But it is clear from this explanation of the separation between production and financial spheres that the true norm of "mature capitalism" is actually stagnation, and not vigorous growth.

However, stagnation does not stop the business of capital accumulation. The system's severe "addiction" to stimulants needed to boost growth is not a mere abstract economic process. To deal with the financial fragility problem, the system always needs "constant new infusions of cash" – but instead of cutting surplus value, multinational corporations obtain this cash from the "working population through drastic increases in exploitation" (Foster and Magdoff 2009:74). Before we continue to explain these exploitative processes, however, it is useful to discuss further the power held by multinationals – and how this power influences their endless quest for profit on a global level.

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Although multinational corporations originated in mature capitalist economies (the triad), they hold oligopolistic power on a global scale. They operate within a system of oligopolistic rivalry where a small number (and the number keeps shrinking) of multinational corporations dominate world production. One example can be seen from the increase in global mergers and acquisitions in the last decade or so, reaching $4.38 trillion in 2007 (Foster, McChesney, and Jonna 2011). Basing his analysis on industrial organisation theory, Hymer (1979:59) argues that corporations' strength and ability to accumulate capital are enhanced as their size and internationality grow. Multinationals give birth to a new structure of management that allows them to rationalise production and to incorporate the advances of science into economic activity "on a systematic basis."

This new management structure also allows them to create significant advances in decision- making capabilities by enabling a vertical system of control, with the Head Office in the core countries at the top of the hierarchy. This Head Office holds a particular function, i.e., to "coordinate, appraise, and plan for the survival and growth of the organism as a whole" – with this, the organisation becomes conscious of itself and gains "a certain measure of control over its own evolution and development" (Hymer 1979:59). With such characteristics, Hymer points out a contradiction inherent in the workings of multinationals: they are "torn in two directions." On the one hand, because these corporations operate internationally, they need a decentralised system of decision making, since they need to adapt to local circumstances in each country. On the other hand, they also need a system of centralised control, since they have to coordinate their activities that are scattered throughout the globe. Thus, instead of a decentralised market, what exists is, at best, a "trickle down" structure on an international scale (Hymer 1979:45). This "trickle down" structure and processes of multinationals have wide consequences that reinforce patterns of authority and control – above all, they enable multinationals to hold oligopolistic power over the imperfect (global) market, or a market in which competition has been eliminated.

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The "New" Imperialism: Looking Through the Eyes of the Global South

The exercise of such oligopolistic power by multinationals can be seen from the practice of exporting capital, especially to the global South. The offshoring/outsourcing practice that marks the "new wave" of globalisation is one example that we can see today – but as mentioned previously, the expansion of capital accumulation has been global throughout the history of the development of capitalism. Lenin (1939:63-64) claimed that the export of capital – owing to colonialism that previously incorporated the periphery into capitalist intercourse – became the "basis for imperialist oppression and the exploitation of most of the countries and nations of the world" conducted by "a handful of wealthy states." For the sake of capital accumulation and the rate of profit, big capitalists exported their capital to poorer countries, where "capital is scarce, the price of land is relatively low, wages are low, raw materials are cheap."

In the following decades, accompanying the emergence of U.S. leadership in the postwar imperialist system, foreign investment continued to gain in significance in the imperialistic world capitalism, especially in the realm of manufacturing. As Harry Magdoff (1969:54) argues: "the acceleration of investment in foreign manufacturing ventures added a new dimension to the internationalisation of capital." Foreign (especially direct) investments are a way to penetrate foreign markets. They allow U.S. firms to compete in foreign markets directly, rather than through exports only. In addition, it also allows these firms to "enter into the world channels of the competing powers" (Magdoff 1969:58). Magdoff's explanation of foreign investments resonates with Hymer's (1979:58), who emphasises that (direct) foreign investments are a tool to maintain and expand the oligopolistic power of multinationals: "direct investment tends to be associated with industries where the market share is largely accounted for by a small number of firms." Hymer also points out that the rapid growth of a foreign country is attractive for foreign investment not only because of the expanding market, but also due to the growth of rival capitalists – i.e., local capital, capital from other countries, or state capital.

Export of capital still serves as an imperialistic tool in the global economy today, including through different forms of foreign investments practiced by multinational corporations. Even though it may be true that the world remains competitive for corporations in some respects, writes John Bellamy Foster (2000:7), "the goal is always the creation of perpetuation of monopoly power – that is, the power to generate persistent, high, economic profits through a mark-up on prime production costs." Whether through intra-firm trade or outsourcing, the increasing trend of foreign investments in the last few decades shows the continuation of imperialistic characteristics of these practices. Or as Zak Cope (2012:202) puts it, as production becomes globalised, "the leading oligopolies compete to reduce labour and raw materials cost. They export capital to the underdeveloped countries in order to secure a high return on the exploitation of abundant cheap labour and the control of economically pivotal natural resources."

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Examining the quest for profit through a "mark-up on prime production costs" can reveal the imperialistic characteristics of offshoring/outsourcing that marks the so-called "new globalisation." In his response to Ellen Meiksins Wood's avoidance of "the intricacies of value theory" in defining the essence of capitalist imperialism, Marxist scholar John Smith (2007) instead argues that we need to apply value theory to the world economy in order to find a

"Global Labour Arbitrage": the replacement, in the United States and other rich economies, "of high-wage workers with like-quality, low-wage workers abroad."

systematic theory of imperialism. As Smith (2011:10) explains, analyses of contemporary imperialism must proceed from, and attempt to explain, "the systematic international divergence in the rate of exploitation between nations" – particularly between the imperialist nations in the global North and the peripheral nations in the global South. He contends that there is nothing new about international differences in the value of labour-power, or about superexploitation. What is new, Smith continues, is the "centrality these phenomena have attained during the past three decades of 'neoliberal globalisation.'"

In an effort to understand the imperialist world economy, we can look closer at what financial analysts refer to as "global labour arbitrage." The term itself was coined by Stephen Roach (2004a), the former chief economist of Morgan Stanley, who defines it as the replacement, in the United States and other rich economies, "of high-wage workers with like-quality, low-wage workers abroad." Roach argues that global labour arbitrage "is likely to be an enduring feature of the economy" and U.S. companies do it "under relentless pressure to cut costs." In Roach's (2004b) understanding, global labour arbitrage is rationalised as an "urgent survival tactic" for companies in the global North – pressured by the need to "search for new efficiencies" in an era of excess supply. Upon critical examination, however, this cost control imperative discussed by Roach is none other than the issue of taking advantage of wage differentials within the imperfect global market, which is illustrated by immigration restrictions.

Smith (2008) explains that global labour arbitrage occurs in an imperfect global market precisely due to the unequal freedom of movement of capital and labour. While global capital and commodities can move relatively freely (outside the monopolistic controls and barriers to entry created by firms and the protectionism still in place in the wealthy countries) due to trade liberalisation, labour is still largely held captive within national borders – a situation often caused by a variety of economic, political, and social factors, including immigration policies. Global labour arbitrage – the pursuit of higher profits through the substitution of higher-paid labour with low-paid labour – thus serves as a means for multinationals to benefit from the "enormous international differences in the price of labour" (Smith 2008:16). In a way, Roach is correct when he says that offshoring is driven by cost-control imperatives, or the quest for efficiencies. Offshoring is, after all, a way to cut costs through low-wage labour and "cheap" materials. But we should not ignore the fact that such cost-cutting is, at its core, a tool to perpetuate their monopoly power. And upon further examination, this process of achieving efficiencies is imperialistic – it is fundamentally an exploitation of labour in the global South by imperialist global capital. Global labour arbitrage itself, writes Smith, constitutes unequal exchange, in which capitalists gain much more profit from lower labour costs in the global South.

Unequal exchange, understood as the exchange of more labour for less, is closely related to the export of capital. As explained by Samir Amin, this export of capital – made possible by the formation of monopolies – enables the capitalist centres to raise the rate of profit. Especially in the early emergence of monopolies (in the late nineteenth century), the export of capital allowed the establishment of the forms of production in the periphery, which, although modern (e.g., same production techniques), possessed the "advantage" of low wage-costs (see Amin 1976). And with this, unequal exchange occurred, indicating a form of "hidden transfer of value" – or "imperial rent" – on a global level, rooted in the unequal power relations among nations, and fuelled by the oligopolistic power of multinationals and their ability to control prices (see Foster and Holleman 2014). At the same time, this process marked the further incorporation of the periphery into the global economy (Amin 1976). In this context, global labour arbitrage also leads to further incorporation of the global South into the world capitalist economy, with the increase in both direct investments and subcontracting in the developing nations.

The aggressiveness of global capital in its search for potential price differences in labour is reflected in the efforts of financial institutions, such as the World Bank and Asian Development Bank (ADB), to foster a "healthy investment climate" in the global South. Reports produced by such institutions are clearly representative of the perspective of capital. The issue of labour, in particular, is obvious in their discussion of what constitutes a good investment climate. Take Indonesia as an example. A team of ADB economists consider "labour regulations" as a "serious concern, more so than labour skills" that hinders Indonesia from improving its investment climate. Likewise, minimum wages also "weigh heavily on firm operations" (ADB 2005:10). The attempts of the Indonesian government to increase the minimum wage after the 1990s crises were met with criticisms that the policy would endanger Indonesia's competitiveness in the investment market. Nisha Agrawal (1995) from World Bank, for example, laments the fact that Indonesia's competitiveness had eroded during the 1990s due to rising labour costs.

Viewed in this way, we can associate global labour arbitrage with several processes. *First*, global labour arbitrage – taken as "the exploitation of the wage differentials worldwide" (Foster and McChesney 2012:26) – is a quest by capital for valorisation. The emphasis on "efficiencies," as Roach states in his essay, is one of the keys here. In the context of the labour theory of value, global labour arbitrage is a strategy for both reducing socially necessary labour costs (by employing low-wage workers) and maximising the appropriation of economic surplus (by extracting more out of workers through various means, including repressive work environments in foreign factories, State-enforced bans on unionisation, quota systems or piece-rate work, and so on) in an imperfect global market. This, in turn, creates and enhances exploitation of the workers in the global South.

central to the creation of this reserve army is the depeasantisation of a large portion of the global periphery through agribusiness.

Second, global labour arbitrage is associated with what Marx refers to as "the industrial reserve army of the unemployed" – but on a global scale, thus the global reserve army of labour. The creation of this reserve army is partly connected to the "great doubling" phenomenon, in which the integration of the workforce of former socialist countries (including China) and former protectionist countries like India into the global economy expands the availability of the global force (see Milberg and Winkler 2013). But also central to the creation of this reserve army is the depeasantisation of a large portion of the global periphery through agribusiness. This forced movement of peasants from the land has resulted in the growth of urban slum populations (Foster and McChesney 2012). This depeasantisation phenomenon is arguably related to the process of primitive – or as some prefer to call it, primary – accumulation.

Magdoff (2013) argues that the concept of primary accumulation serves as a means to understand the history of the underdeveloped world, along with the whole development of the imperialist system. This is so because, as Magdoff (2013:18) explains, "in each one of the nonadvanced capitalist societies, the process of 'primary accumulation' has been taking place over a long period and is carried on under force along with whatever economic process is developing." With this in mind, primary accumulation is not only a form of financial accumulation, i.e., "that of getting enough resources – call it capital fund, savings, or surplus – to put into further capital investment" (Magdoff 2013:15). Instead, it should be seen as (a) the creation of a working class, and (b) the creation of capital (for investment), and (c) the making of an internal market, whether through breaking into noncapitalist markets (as Luxemburg points out) or through developing its own market domestically (as in the case of Russia, pointed out by Lenin) – both are historically significant.

The creation of a working class is perhaps the most obvious case. For example, in colonies in Africa, Asia, and Latin America, the workforce was created either directly by forcing work (slavery) or indirectly through the introduction of certain taxes, "which drove labour out of non-capitalist production into wage labour" (Magdoff 2013:18). In Marx's

> *This divide and rule strategy "integrates disparate labour surpluses, ensuring a constant and growing supply of recruits to the global reserve army" who are "made less recalcitrant by insecure employment and the continual threat of unemployment".*

(1976:876) own words, this is the forcible creation of the proletariat class, where "great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled onto the labour market as free, unprotected and rightless proletarians." In a more recent context, Custers (2012:354) explains the primary accumulation that occurred in Bangladesh, where

> millions of former, small peasant proprietors have been turned into landless peasants as a consequence of the dominance of commercial traders, who 'skim off' the agricultural surplus through the method of buying cheap and selling dear. Underpayment of the producers of agricultural commodities, the spread of peasants' indebtedness, and the loss of arable land on a vast scale have been consistent and interrelated features of the Bangladeshi rural economy throughout the period since the country's formal political independence in 1971.

In addition, with the World Bank behind the process, the rural poor were also deprived of their access to common property resources, including free access to water and fishery resources. In turn, the landless peasantry – divorced from their means of production – soon became the wage labourers that filled the factories in Bangladesh (Custers 2012). Creating this global reserve army of labour is a strategy not only for increasing profits; it serves as a divide and rule approach to labour on a global scale. While competition among corporations is limited to oligopolistic rivalry, competition among workers of the world – especially those in the global South – is greatly enhanced. In other words, workers are pitted against each other. This divide and rule strategy "integrates disparate labour surpluses, ensuring a constant and growing supply of recruits to the global reserve army" who are "made less recalcitrant by insecure employment and the continual threat of unemployment" (Foster and McChesney 2012:114-115).

Third, if we focus on outsourcing practices, or contractual relationships with independent suppliers abroad, global labour arbitrage can reveal more complex imperialist relationships between global capital and labour in the global South. In outsourcing, multinational corporations have only an indirect connection with the workers/farmers who produce their goods. There are often no visible flows of profits from these foreign suppliers to their global North customers (multinationals). Smith argues that this is highly problematic in several ways.

To begin, Smith (2012) shows that we can see the problem by tracing profits generated by multinationals' goods – such as smart phones, T-shirts, and coffee. Let us take an iPod, for example. In 2006, the retail price of a 30Gb Apple iPod was $299. The total cost of production (that was performed entirely abroad) was $144.40 – meaning, the gross profit margin was 52 percent. The "gross profit" of $154.60 is divided among Apple, its retailers and distributors, and, by taxes, the government. But here is where the "magic" kicks in: this 52 percent of the final sale price is counted as value added for the United States and is added to U.S. Gross Domestic Product (GDP). This "accounting" does not make sense, since the production was performed outside of the United States. Even though a large share of jobs required to produce the iPod are located abroad (in this case China, where Foxconn factories are located), the total Chinese wage bill for iPod production was only $19 million, compared to the U.S. wage bill of $719 million. A major factor that contributes to this inequality is the fact that the "professional workers" category – those employed in the United States – captures more than two-thirds of the total U.S. wage bill. Moreover, citing Tony Norfield's study of Bangladesh-made H&M t-shirts sold in Germany, Smith explains that core citizens cannot only buy cheap commodities, but they also

> *Standard data on GDP and trade flows exaggerate the global North's contribution to global wealth and, at the same time, decrease that of the global South.*

benefit from the profit that these commodities generate. A major part of revenue from the sales price goes to the state in taxes, as well as to a number of groups, including workers, executives, landlords, and businesses in core countries.

Further, this case illustrates what Smith (2012) calls the "GDP illusion." Standard data on GDP and trade flows exaggerate the global North's contribution to global wealth and, at the same time, decrease that of the global South. As seen from the examples above, when we buy say, a T-shirt, the country where it was produced receives in its GDP only a small proportion of the final sales price. Meanwhile, the larger part shows up in the GDP of the country where it is consumed. Such an approach leads to absurd "facts" – in poorer countries where production happens, i.e., countries that are actually making a greater contribution to global wealth, GDPs are much smaller than countries that are not productive. Why is this the case? Smith argues that the GDP and trade data only account for marketplace transactions. But nothing is produced in markets – as Marx explains in his first volume of Capital, we should go instead to the hidden abode of production. Smith (2012:96) writes: "Values are created in production processes and captured in the markets and have a prior and separate existence from the prices finally realised when they are sold."

The failure to take this into account leads to another fallacy: the conflation of value with price. In the framework of neoclassical economics, GDP is "essentially the sum of the 'value added' generated by each firm within a nation," where value added is defined as "the difference between the prices paid for all inputs and the prices received for all outputs."

labour's share of GDP within a country is not directly and simply related to the prevailing rate of exploitation in that country, since a large component of 'GDP' in the imperialist nations represents the proceeds of exploited labour" captured from abroad.

Hence, in this understanding, "the amount by which the price of outputs exceeds the price of inputs is automatically and exactly equal to the value that it has generated in its own production process, and cannot leak to other firms or be captured from them." Taking a Marxist approach, Smith rejects this "absurdity" and provides a counterargument: value added is really value captured. Meaning, "it measures the share of total economy-wide value added that is captured by a firm, and does not in any way correspond to the value created by the living labour employed within that individual firm." He also points out that mainstream economics fails to note that many firms that supposedly generate value added "are actually engaged in nonproduction activities such as finance and administration that produce no value at all" (Smith 2012:99). The GDP problem explains why the global South is underestimated in the dominant paradigms – its contribution to global wealth is overlooked. In the end, this means that, "Labour's share of GDP within a country is not directly and simply related to the prevailing rate of exploitation in that country, since a large component of 'GDP' in the imperialist nations represents the proceeds of exploited labour" captured from abroad (Smith 2012:100-101).

Mainstream measurements of national economic performance have also been questioned within environmental perspectives. Among them are the work of Herman Daly and John Cobb (1989), who provide a critique of GNP (Gross National Product) in their book For the Common Good. The discussion of the GDP illusion above, however, shows that there is a pressing need to develop such critiques of dominant paradigms in a way that takes into account the global South perspective. To reveal the imperialist relations between the global North and the global South that are hidden in such economic measurements, we should at least start from an examination of how the global South's contribution to global wealth is ignored – and how this ignorance further conceals the labour exploitation that occurs in the hidden abode of production in the global South.

we should at least start from an examination of how the global South's contribution to global wealth is ignored – and how this ignorance further conceals the labour exploitation that occurs in the hidden abode of production in the global South.

With the explanation above in mind, it is difficult to exaggerate the importance of incorporating value theory into our examination of the imperialist global economy. Marx's value theory can help us understand the fundamental problems of global production, and the processes of appropriation of economic surplus on a global level in particular. This kind of abstraction in understanding globalised production as imperialistic processes can be accompanied by empirical studies that can highlight historical and political analyses of such processes. For example, more attention can be given to how global South capital and nation-states serve as actors in the global economy who, on the one hand, are arguably subordinate to global North capital but, on the other hand, are exploitative towards their own labour force. Through this, we can also see the diversity in the patterns of power relations among various nation-states, in relation to their position in the global economy.

Manufacturing companies in the global South that serve as multinationals' suppliers of either raw materials or packaging of final products, for example, often hold interesting positions. Having to submit to their multinational clients' demands can create conflict in their internal production processes. Through demands such as "cost-saving" or technological specification that in the end dictate the details of production, local companies in the global South often have to be "flexible" – in other words, they have to run their business, especially in the areas of purchasing, planning, "human resource management," and production, as wished by their multinational clients' changing orders and expectations. This often creates conflicts in their own management's goals and expectations for productivity and efficiency. To what extent this issue influences the local companies' profit margin or "bargaining power" in the complex global commodity or value chains is one thing – and this is something that even mainstream analysts can offer. However, the more pressing question is to what extent do such global-local capital relations affect workers in the global South, and how is this related to the position of the relevant countries in such global production chains. Also, how can this issue give us insight into the capturing of value by multinational corporations on the global level? As discussed above, global labour arbitrage is about a lot of things – one of them being the question of whether and how the process creates superexploitation in the global South. It emphasises the interrelationships among the major actors in the global economy: global and local capital, global South labour, and the state.[4]

Further examination into this issue can give us a concrete understanding of how global capital- labour relations work. And we cannot do this without "going back" to the examination of production processes – in the context of "globalisation," this means mostly the production processes in the global South, where commodities are manufactured. In the end, I believe that we can construct a theory of imperialism that uses the analyses of commodities without undermining the material relations that underlie globalised production. Marx himself opens the first chapter of the first volume of Capital by claiming the importance of the commodity as an analytical tool: "The wealth of societies in which the capitalist mode of production prevails appears as an 'immense collection of commodities'... Our investigation therefore begins with the analysis of the commodity" (Marx 1976:125). This can include an analysis of an iPhone or a T-shirt, but most importantly, an analysis of the "special" commodity: labour- power. As Smith (2007:12) argues, living labour is central to the globalisation of production processes precisely because "it too is a commodity – commodification of labour power is the essence of capitalism – and its production is also being globalised." If the cheerleaders of capital who are lamenting the demise of market capitalism could talk about strategies to keep production (read: exploitation) going in the global South, it would be unfortunate if we, as the critics of capital, would not even try to understand the processes that allow this imperialist capital expansion to survive.

[4] ↩This is the author's current area of research.

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❖ **About the author: Intan Suwandi** is an assistant professor of sociology at Illinois State University and author of Value Chains: The New Economic Imperialism (Monthly Review Press, 2019).

❖**About this essay:** This essay was originally presented in English at the GERG Conference, Winnipeg, 25-27 September 2015.

❖**Quote this paper as:** Intan Suwandi: Back to Production: An Analysis of the Imperialist Global Economy, The Jus Semper Global Alliance, October, 2020.

❖**Tags:** Capitalism, Imperialism, Neoliberalism, Globalisation, Financialisation, Labour Arbitrage, Unequal Exchange, Commodity Chains, Labour, Value Chains, Sustainability.