Chapter 3
The economic dimension of globalization

At the beginning of the previous chapter we noted that new forms of technology centred on the Internet are one of the hallmarks of contemporary globalization. Indeed, technological progress of the magnitude seen in the last three decades is a good indicator for the occurrence of profound social transformations centred on the market. Changes in the way in which people undertake economic production and organize the exchange of commodities represent one obvious aspect of the great transformation of our age. Economic globalization refers to the intensification and stretching of economic connections across the globe. Gigantic flows of capital mediated by digital technology have stimulated trade in goods and services. Extending their reach around the world, markets have migrated to cyberspace and created new linkages among national and regional economies. Huge transnational corporations, powerful international economic institutions, and gigantic regional trading systems like Asian Pacific Economic Cooperation (APEC) or the European Union (EU) have emerged as the major building blocks of the 21st century's global economic order.

The emergence of the global economic order

Contemporary economic globalization can be traced back to the gradual emergence of a new international economic order assembled at an economic conference held towards the end of World War II in the sleepy New England town of Bretton Woods (see Illustration 6). Under the leadership of the United States of America and Great Britain, the major economic powers of the global North reversed their protectionist policies of the interwar period (1918–39). In addition to arriving at a firm commitment to expand international trade, the participants of the conference also agreed to establish binding rules on international economic activities. Moreover, they resolved to create a more stable money exchange system in which the value of each country's currency was pegged to a fixed gold value of the US dollar. Within these prescribed limits, individual nations were free to control the permeability of their borders. This allowed states to set their own political and economic agendas.

6. **Bretton Woods Conference of 1944**

Bretton Woods also set the institutional foundations for the establishment of three new international economic organizations. The International Monetary Fund (IMF) was created to administer the international monetary system. The International Bank for Reconstruction and Development, later known as the World Bank, was initially designed to provide loans for Europe's postwar reconstruction. During the 1950s, however, its purpose was expanded to fund various industrial projects in developing countries around the world. Finally, the General Agreement on Tariffs and Trade (GATT) was established in 1947 as a global trade organization charged with fashioning and enforcing multilateral trade agreements. In 1995, the World Trade Organization (WTO) was founded as the successor organization to GATT. By the late 1990s, the WTO had become the focal point of intense public controversy over the design and the effects of economic globalization.

In operation for almost three decades, the Bretton Woods regime contributed greatly to the establishment of what some observers have called the 'golden age of controlled capitalism'. Even the most conservative political parties in Europe and the United States embraced some version of state interventionism propagated by British economist John Maynard Keynes, the architect of the Bretton Woods system. Existing mechanisms of state control over international capital movements made possible full employment and the expansion of the welfare state. Rising wages and increased social services secured in the wealthy countries of the global North a temporary class compromise. By the early 1970s, however, the Bretton Woods system collapsed. Its demise strengthened those integrationist economic tendencies that later commentators would identify as the birth pangs of the new global economic order. What happened?

In response to profound political changes in the world that were undermining the economic competitiveness of US-based industries, President Richard Nixon abandoned the gold-based

fixed rate system in 1971. The ensuing decade was characterized by global economic instability in the form of high inflation, low economic growth, high unemployment, public sector deficits, and two unprecedented energy crises due to Organization of Petroleum Exporting Countries (OPEC)'s ability to control a large part of the world's oil supply. Political forces in the global North most closely identified with the model of controlled capitalism suffered a series of spectacular election defeats at the hands of conservative political parties who advocated what came to be called a 'neoliberal' approach to economic and social policy.

In the 1980s, British Prime Minister Margaret Thatcher and US President Ronald Reagan acted as the co-leaders of the neoliberal revolution against Keynesianism. Soon thereafter, business elites in the US and Japan consciously linked the novel term 'globalization' to a political agenda aiming at the 'liberation' of state-regulated economies around the world.

Neoliberalism is rooted in the classical liberal ideals of Adam Smith (1723–90) and David Ricardo (1772–1823), both of whom viewed the market as a self-regulating mechanism tending toward equilibrium of supply and demand, thus securing the most efficient allocation of resources. These British philosophers considered that any constraint on free competition would interfere with the natural efficiency of market mechanisms, inevitably leading to social stagnation, political corruption, and the creation of unresponsive state bureaucracies. They also advocated the elimination of tariffs on imports and other barriers to trade and capital flows between nations. British sociologist Herbert Spencer (1820–1903) added to this doctrine a twist of social Darwinism by arguing that free market economies constitute the most civilized form of human competition in which the 'fittest' would naturally rise to the top.

This budding neoliberal economic order received further legitimation with the 1989–91 collapse of communism in the Eastern Europe and the Soviet Union.

Since then, the three most significant developments related to economic globalization have been the internationalization of trade and finance, the increasing power of transnational corporations and large investment banks, and the enhanced role of international economic institutions like the IMF, the World Bank, and the WTO. Let us briefly examine these important features.

The internationalization of trade and finance

Many people associate economic globalization with the controversial issue of free trade. After all, the total value of world trade exploded from $57 billion in 1947 to an astonishing $14.9 trillion in 2010. In that year, China, the world's leading manufacturer, was responsible for 11 per cent of global exports while the US, the world's most voracious consumer, accounted for 13 per cent of global imports.

Indeed, the public debate over the alleged benefits and drawbacks of free trade still rages at a feverish pitch as wealthy Northern countries and regional trading blocs have increased their efforts to establish a single global market through far-reaching trade-liberalization agreements. While admitting that these new sets of trade rules often override national legislation, free trade proponents have nonetheless assured the public that the elimination or reduction of existing trade barriers among nations will increase global wealth and enhance consumer choice. The ultimate benefit of integrated markets, they argue, would be secure peaceful international relations and technological innovation for the benefit of all.

Concrete neoliberal measures

1. Privatization of public enterprises.
2. Deregulation of the economy.
3. Liberalization of trade and industry.
4. Massive tax cuts.
5. 'Monetarist' measures to keep inflation in check, even at the risk of increasing unemployment.
6. Strict control on organized labour.
7. The reduction of public expenditures, particularly social spending.
8. The down-sizing of government.
9. The expansion of international markets.
10. The removal of controls on global financial flows.

To be sure, there is evidence that some national economies have increased their productivity as a result of free trade. Millions of people have been lifted out of poverty in developing countries like China, India, or Indonesia. A 2012 World Bank report shows that for the first time the proportion of people living in extreme poverty—on less than $1.25 a day—fell in every developing region from 2005 to 2008. The progress has been so drastic that the United Nations' Millennium Goals to cut extreme poverty in half has been met three years before its 2015 deadline. Moreover, there are some clear material benefits that accrue to societies through specialization, competition, and the spread of technology. But it is less clear whether the profits resulting from free trade have been distributed fairly within and among populations. A number of studies suggest that the gap between rich and poor countries is actually widening at a fairly rapid pace (see Figure B).

The internationalization of trade has gone hand in hand with the liberalization of financial transactions. Its key components include

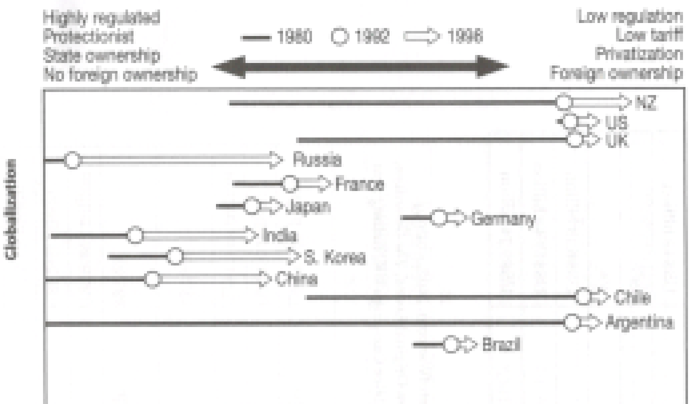
the deregulation of interest rates, the removal of credit controls, the privatization of government-owned banks and financial institutions, and the explosive growth of investment banking. Globalization of financial trading allows for increased mobility among different segments of the financial industry, with fewer restrictions and greater investment opportunities. This new financial infrastructure emerged in the 1980s with the gradual deregulation of capital and securities markets in Europe, the Americas, East Asia, Australia, and New Zealand (see Figure C). A decade later, Southeast Asian countries, India, and several African nations followed suit. During the 1990s, new satellite systems and fibre-optic cables provided the nervous system of Internet-based technologies that further accelerated the liberalization of financial transactions. As captured by the snazzy title of Microsoft Chief Executive Officer (CEO) Bill Gates' best-selling book, many people conducted *business@the-speed-of-thought*. Millions of individual investors utilized global electronic investment networks not only to place their orders, but also to receive valuable information about relevant economic and political developments. In 2005, internet publishing, broadcasting and marketing firms traded approximately US$10 trillion in the United States alone. In early 2007, just before the Global Financial Crisis (GFC) hit, NASDAQ attempted to take over the London Stock Exchange, offering US$5.3 billion, a move that was rejected by the vast majority of shareholders in the London Stock Exchange.

Yet, a large part of the money involved in this 'financialization' of global capitalism has little to do with supplying capital for such productive investments as putting together machines or organizing raw materials and employees to produce saleable commodities. Most of the financial growth has occurred in the form of high-risk 'hedge funds' and other purely money-dealing currency and securities markets that trade claims to draw profits from future production. In other words, investors are betting on commodities or currency rates that do not yet exist. For example, in 2010, the

Total external debt of emerging and developing economies in 1970	US$70.2 billion
Total external debt of emerging and developing economies in 1980	US$569 billion
Total external debt of emerging and developing economies in 2013	US$6.857 trillion
Total external debt of emerging and developing economies in 2013 as a percentage of the total GDP	23.55%
Total external debt of emerging and developing economies in 2013 as a percentage of export goods and services	72.25%
Cost of the war in Iraq and Afghanistan to the USA (2001–2012)	US$1.349 trillion
Cost to convert one billion households to renewable wind energy	US$1.2 trillion
Amount Sudan owes the UK for loans (which were taken out by dictator Gaafar Nimeiry in 1984 for Cold War expenses)	US$1.055 billion
Percentage of this debt that is interest	75%
Amount the G8 promised to write off	US$100 billion
Amount of debt actually written off	US$46 billion
Number of countries eligible for the international Heavily Indebted Poor Countries initiative (HIPC)	32
Proportion of bilateral debt that the G8 counties have promised to cancel for the 42 HIPCs	100%
Proportion of multilateral debt that the World Bank and IMF will eventually cancel for the 42 HIPCs	65% (approx.)
Total amount of multilateral debt owned by the 42 HIPCs that is NOT eligible for cancellation	US$93 billion
Debt acquired by Indonesia under Suharto's brutal 30-year reign	US$150 billion
Amount stolen by Suharto over this time	US$48 billion
Percentage of Lebanon's GDP spent on debt servicing	19%
Percentage of Lebanon's GDP spent on public health	4%
Mozambique's gross debt in 2012	US$6.18 billion
Mozambique's predicted gross debt in 2017	US$13.43 billion
Google's net profit in 2011	US$9.74 billion

B. The global South: a fate worse than debt

Sources: IMF, <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>; CostofWar.com, 2012, <http://costofwar.com/>; Simon Murphy, 'Third of Debts Owed by Poor Countries to UK is Interest on Original Loans', *The Guardian*, 2012, <http://www.guardian.co.uk/world/2012/jan/22/poor-countries-debt-uk-interest>; Jubilee Campaign UK, *Getting into Debt*, 2010, p. 8: <http://www.jubileedebtcampaign.org.uk/download.php?id=992>



C. The advance of deregulation and liberalization, 1980–98

Source: Vincent Cable, *Globalization and Global Governance* (The Royal Institute of International Affairs, 1999), p. 20

equivalent of US$4 trillion was exchanged daily in global currency markets alone (see Illustration 7). Dominated by highly sensitive stock markets that drive high-risk innovation, the world's financial systems have become characterized by extremely high volatility, rampant competition, and general insecurity. Global speculators often take advantage of weak financial and banking regulations to make astronomical profits in emerging markets of developing countries. However, since these international capital flows can be reversed swiftly, they are capable of creating artificial boom-and-bust cycles that endanger the social welfare of entire regions.

In early 2008, this increasing volatility of financial flows combined with two decades of neoliberal deregulation to produce the GFC—the most serious economic crisis since the Great Depression of the 1930s. Before we continue our exploration of economic globalization with respect to the increasing power of transnational corporations and the enhanced role of international economic institutions, let us pause for a moment to examine briefly the causes and evolution of this crisis.

7. The New York Stock Exchange. Billions of shares change hands on an average trading day

The Global Financial Crisis

The possible negative consequences of a deregulated global financial infrastructure were already visible in the 1997–8 Southeast Asia Crisis. In the early 1990s, the governments of Thailand, Indonesia, Malaysia, South Korea, and the Philippines had gradually abandoned control over the domestic movement of capital in order to attract foreign direct investment. The ensuing influx of global investment translated into soaring stock and real estate markets all over Southeast Asia. But when those investors realized that prices had become inflated much beyond their actual value, they withdrew a total of US$105 billion from these countries. As a result, economic output fell, unemployment increased, and wages plummeted. By late 1997, the entire region found itself in the throes of a financial crisis that threatened to push the global economy into recession. This disastrous result was only narrowly averted by a combination of international bail-out packages and the immediate sale of Southeast Asian commercial assets to foreign corporate investors at rock-bottom prices.

A decade later, the world was not as lucky. The crash of 2008 has its roots in the 1980s and 1990s, when three successive US governments under Presidents Reagan, Bush I, and Clinton pushed for the significant deregulation of the domestic financial services industry. Perhaps the most important initiative in this regard was the 1999 repeal of the Glass-Steagall Act, which was signed into law by President Roosevelt in 1933 to prohibit commercial banks from engaging in investment activities on Wall Street. After all, the 1929 Crash and ensuing Great Depression had exposed the dangers of the savings and loan industry partaking in the speculative frenzy on Wall Street, which had ultimately led to the bankruptcy of many commercial banks and the loss of their customers' assets.

The neoliberal deregulation of US finance capital resulted in a frenzy of mergers that gave birth to huge financial-services

conglomerates eager to plunge into securities ventures in areas that were not necessarily part of their underlying business. Derivatives, financial futures, credit default swaps, and other esoteric financial instruments became extremely popular when new computer-based mathematical models suggested more secure ways of managing the risk involved in buying an asset in the future at a price agreed to in the present. Relying far less on savings deposits, financial institutions borrowed from each other and sold these loans as securities, thus passing the risk on to investors in these securities. Other 'innovative' financial instruments such as 'hedge funds' leveraged with borrowed funds fuelled a variety of speculative activities. Billions of investment dollars flowed into complex 'residential mortgage-backed securities' that promised investors up to a 25 per cent return on equity.

Assured by monetarist policies aimed at keeping interest rates low and credit flowing, investment banks eventually expanded their search for capital by buying risky 'subprime' loans from mortgage brokers who, lured by the promise of big commissions, were accepting applications for housing mortgages with little or no down payment and without credit checks. Increasingly popular in the United States, most of these loans were adjustable-rate mortgages tied to fluctuations of short-term interest rates. Investment banks snapped up these high-risk loans knowing that they could resell these assets—and thus the risk involved—by bundling them into composite securities no longer subject to government regulation. Indeed, one of the most complex of these 'innovative' instruments of securitization—so-called 'collateralized debt obligations'—often hid the problematic loans by bundling them together with lower-risk assets and reselling them to unsuspecting investors.

But why, given the poor quality of collateral, did individual and institutional investors continue to buy these mortgage-backed securities? One can think of three principal reasons. First, as noted above, esoteric forms of securities often concealed the degree of

risk involved, and investors failed to grasp the complexity of these new investment funds. Second, investors relied on the excellent reputation of such financial giants as Bank of America or Citicorp. Third, they trusted the positive credit ratings reports issued by Standard and Poor's or Moody's, failing to see how these firms were themselves implicated in the expanding speculative bubble. Seeking to maximize their profits, these credit ratings giants had a vested interest in the growth of securities markets and thus took an extremely rosy view of the inherent risks.

The high yields flowing from these new securities funds attracted more and more investors around the world, thus rapidly globalizing more than US$1 trillion worth of what came to be known as 'toxic assets'. In mid-2007, however, the financial steamroller finally ran out of fuel when seriously overvalued American real estate began to drop and foreclosures shot up dramatically. Investors finally realized the serious risks attached to the securities market and lost confidence. Consequently, the value of securitized mortgage funds fell and banks desperately, but in vain, tried to somehow eliminate the debts showing on their balance sheets.

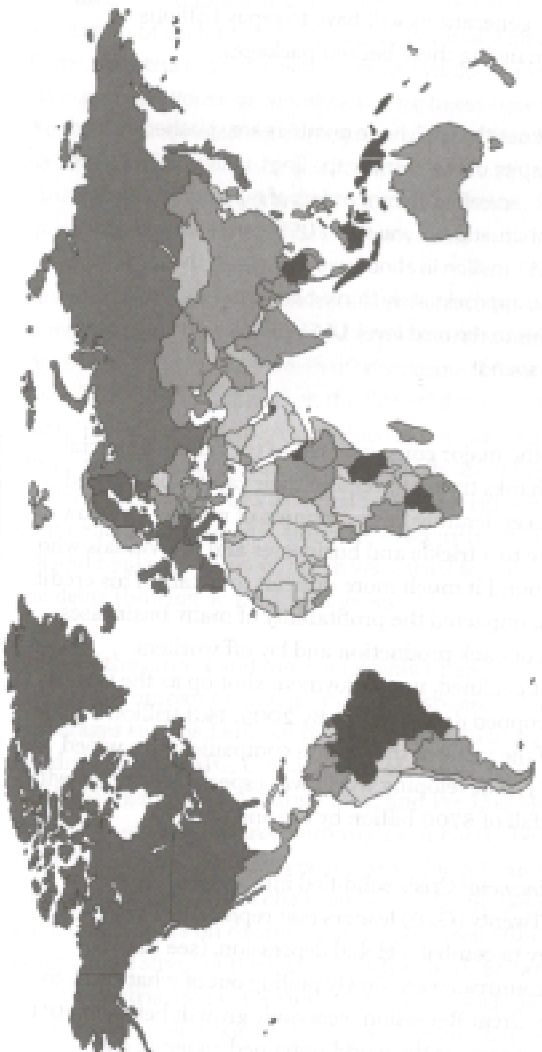
Some of the largest and most venerable financial institutions, insurance companies, and government-sponsored underwriters of mortgages such as Lehman Brothers, Bear Stearns, Merrill Lynch, Goldman Sachs, AIG, Citicorp, J. P. Morgan Chase, IndyMac Bank, Morgan Stanley, Fannie Mae, and Freddie Mac—to name but a few—either declared bankruptcy or had to be bailed out by the US tax payer. Both the conservative Bush II and the liberal Obama administrations championed spending hundreds of billions of dollars on distressed mortgage securities in return for a government share in the businesses involved. Britain and most other industrialized countries followed suit with their own multi-billion dollar bailout packages, hoping that such massive injections of capital into ailing financial markets would help prop up financial institutions deemed 'too large to be allowed to fail'. But these generous rescue packages allowed large financial

conglomerates to lose even more money without having to declare bankruptcy. The cost passed on to the world's taxpayers is truly staggering: future generations will have to repay trillions of dollars used for financing these bailout packages.

When reading about the GFC, huge numbers are splashed around very liberally. In spite of their similar spellings, million, billion, and trillion represent radically different orders of magnitude. Consider this hypothetical situation: If you spent US$1 every second, you would spend US$1 million in about twelve days. At the same rate, it would take you approximately thirty-two years to spend US$1 billion. Taking this to the next level, US$1 trillion would take you 31,546 years to spend!

However, one of the major consequences of the failing financial system was that banks trying to rebuild their capital base could hardly afford to keep lending large amounts of money. The flow of global credit froze to a trickle and businesses and individuals who relied on credit found it much more difficult to obtain. This credit shortage, in turn, impacted the profitability of many businesses, forcing them to cut back production and lay off workers. Industrial output declined, unemployment shot up as the world's stock markets dropped dramatically. By 2009, 14.3 trillion dollars, or 33 per cent of the value of the world's companies, was wiped out by the GFC. The developing world was especially hard hit with a financial shortfall of $700 billion by the end of 2010.

As the Global *Financial* Crisis solidified into a global *economic* crisis, Group of Twenty (G20) leaders met repeatedly to devise a common strategy to combat a global depression. (see Map 3). Although most countries were slowly pulling out of what came to be known as the 'Great Recession', economic growth between 2011 and 2013 in many parts of the world remained anaemic and unemployment numbers came down only very slowly. By 2011, it also became clear that the GFC and its ensuing global recession



Map 3. Countries falling into recession as a result of the Global Financial Crisis, 2008

had spawned a severe sovereign debt crisis and a banking crisis, especially in the European Union. This rapidly escalating financial turmoil affecting first Greece, then Spain, and then other countries in the Eurozone continues to threaten the fragile recovery of the global economy. We will return to the impact of various 'global crises' on the future trajectory of globalization in the final chapter.

The power of transnational corporations

As we noted at the outset of this chapter, the increasing power of transnational corporations is another principal feature of economic globalization. Transnational corporations (TNCs) are the contemporary versions of the early modern commercial enterprises we discussed in the previous chapter. Powerful firms with subsidiaries in several countries, their numbers skyrocketed from 7,000 in 1970 to about 80,000 in 2012. Enterprises like General Motors, Wal-Mart, Exxon-Mobil, Mitsubishi, and Siemens belong to the 200 largest TNCs, which account for over half of the world's industrial output. None of these corporations maintains headquarters outside of North America, Mexico, Europe, China, Japan, and South Korea. This geographical concentration reflects existing asymmetrical power relations between the North and the South.

Rivalling nation-states in their economic power, these corporations control much of the world's investment capital, technology, and access to international markets. In order to maintain their prominent positions in the global marketplace, TNCs frequently merge with other corporations. Some of these recent mergers include the US$162 billion marriage of the world's largest Internet provider, AOL, with entertainment giant Time-Warner; the purchase of Chrysler Motors by Daimler-Benz for US$43 billion; and the US$115 billion merger between Sprint Corporation and MCI WorldCom. In 2007, global telecommunications TNCs Nokia and Siemens merged in a deal worth approximately US$38 million. In 2008, at the height of the GFC, Bank of America acquired Merrill Lynch for US$50 billion.

A 2009 comparison of gross domestic products (GDPs) and corporate sales reveals that forty-four of the world's hundred largest economies are corporations; fifty-six are countries. (see Figure D). Hence, it is not surprising that some critics have characterized economic globalization as 'corporate globalization' or 'globalization-from-above'.

TNCs have consolidated their global operations in an increasingly deregulated global labour market. The availability of cheap labour, resources, and favourable production conditions in the global South has enhanced corporate mobility and profitability. Accounting for over 70 per cent of world trade, TNCs have boosted their foreign direct investments by approximately 15 per cent annually. As the 2012 UNCTAD *World Investment Report* shows, the total foreign direct investment of the world's hundred largest TNCs in 2011 amounted to over US$374 billion. Their ability to disperse manufacturing processes into many discrete phases carried out in many different locations around the world reflects the changing nature of global production. Such transnational production networks allow TNCs like Wal-Mart, General Motors, and Volkswagen to produce, distribute, and market their products on a global scale.

No doubt, the growing power of TNCs has profoundly altered the structure and functioning of the international economy. These giant firms and their global strategies have become major determinants of trade flows, the location of industries, and other economic activities around the world.

A ground-breaking study published in 2011 analysed the relationships between 43,060 large TNCs in terms of share ownerships linking them. The findings revealed that a relatively small core of 1,318 corporations appeared to own collectively through their shares the majority of the world's large blue chip and manufacturing firms. In fact, an even smaller number of these TNCS—147 super-connected corporations to be exact—controlled

Corporation	Industry/ Headquarters	Revenue (US$m)	Country	GDP (US$m)
1 Royal Dutch Shell	Oil, Netherlands	470,171	Poland	469,440
2 Exxon Mobil	Oil, USA	452,926	Sweden	458,552
3 Wal-Mart Stores	Retail, USA	446,950	Saudi Arabia	434,666
4 Sinopec Corp.	Oil, China	398,088	Venezuela	391,847
5 BP	Oil, UK	375,517	South Africa	363,910
6 Vitol	Oil, Switzerland	297,000	United Arab Emirates	297,648
7 China National Petroleum Corporation	Oil, China	273,404	Colombia	299,886
8 Chevron Corporation	Oil, USA	245,621	Finland	238,041
9 ConocoPhillips	Oil, USA	237,272	Malaysia	237,797
10 Toyota Motors	Car, Japan	224,251	Egypt	218,894

D. Transnational corporations versus countries: a comparison

Sources: Forbes Fortune 500, 2012: <http://money.cnn.com/magazines/fortune/fortune500/2012/full_list/>; Shell, 2011, p. 10 <http://www.annualreportandform20f.shell.com/2011/servicepages/downloads/files/download2.php?file=entire_shell_20f_11.pdf>; BP, 2011, p. 58: <http://www.bp.com/annualreport>; Vitol, 2011, p. 2: <http://www.vitol.com/downloads/vitol-group-brochure-2012.pdf>; Sinopec, 2011, p. 5: <http://english.sinopec.com/download_center/reports/2012/20120326/download/2011AnnualReport.pdf>; Toyota, 2012, p. 2: <http://www.toyota-global.com/investors/financial_result/2012/pdf/q4/summary.pdf>; World Bank, 2012: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?order=wbapi_data_value_2010%20wbapi_data_value%20wbapi_data_value-last&sort=desc>

40 per cent of the total wealth in the network. Most of them were financial institutions like Barclays Bank, which topped the list. Ironically, it was this very bank that found itself at the centre of a huge scandal that rocked the financial world in July 2012 when it was revealed that Barclays and fifteen other major banks had rigged the world's most important global interest rate for years. Indeed, TNCs have become extremely important players that influence the economic, political, and social welfare of many nations. Here is a final example.

The enhanced role of international economic institutions

The three international economic institutions most frequently mentioned in the context of economic globalization are the IMF, the World Bank, and the WTO. These three institutions enjoy the

Nokia's role in the Finnish economy

Named after a small town in southwest Finland, Nokia Corporation rose from modest beginnings nearly two decades ago to become the world's largest TNC engaged in the manufacturing of mobile phones and converging Internet industries. Its products connect more than a billion people in an invisible web around the globe. Employing over 100,000 people in 120 countries, Nokia amassed a global revenue of over US$50 billion in 2010, which translated into a profit of US$2.5 billion. However, Nokia's gift to Finland—the distinction of being the most interconnected nation in the world—came at the price of economic dependency. Nokia is the engine of Finland's economy, representing two-thirds of the stock market's value and one-fifth of the nation's total export. It employs 22,000 Finns, not counting the estimated 20,000 domestic employees who work for companies that depend on Nokia contracts. The corporation produces a large part of Finland's tax revenue, and its US$25 billion in annual sales almost equals the entire national budget. Yet, when Nokia's growth rate slowed in the wake of the GFC—10,000 employees were let go in 2012 and some Finnish factories shut down—company executives successfully pressured the Finnish government to reduce its corporate tax rates. Today, many Finnish citizens fear that such influence wielded by relatively few Nokia managers will translate into further tax concessions that might adversely affect the country's generous and egalitarian welfare system.

privileged position of making and enforcing the rules of a global economy that is sustained by significant power differentials between the global North and South. Since we will discuss the WTO in some detail in Chapter 8, let us focus here on the other two institutions. As pointed out above, the IMF and the World Bank emerged from the Bretton Woods system. During the Cold

War, their important function of providing loans for developing countries became connected to the West's political objective of containing communism. Starting in the 1970s, and especially after the fall of the Soviet Union, the economic agenda of the IMF and the World Bank has synchronized neoliberal interests to integrate and deregulate markets around the world.

In return for supplying much-needed loans to developing countries, the IMF and the World Bank demand from their creditor nations the implementation of so-called 'structural adjustment programmes'. Unleashed on developing countries in the 1990s, this set of neoliberal policies is often referred to as the 'Washington Consensus'. It was devised and codified by John Williamson, who was an IMF adviser in the 1970s. The various sections of the programme were mainly directed at countries with large foreign debts remaining from the 1970s and 1980s. The official purpose of the document was to reform the internal economic mechanisms of debtor countries in the developing world so that they would be in a better position to repay the debts they had incurred. In practice, however, the terms of the programme spelled out a new form of colonialism. The ten points of the Washington Consensus, as defined by Williamson, required governments to implement the following structural adjustments in order to qualify for loans:

1. A guarantee of fiscal discipline, and a curb to budget deficits.
2. A reduction of public expenditure, particularly in the military and public administration.
3. Tax reform, aiming at the creation of a system with a broad base and with effective enforcement.
4. Financial liberalization, with interest rates determined by the market.
5. Competitive exchange rates, to assist export-led growth.
6. Trade liberalization, coupled with the abolition of import licensing and a reduction of tariffs.
7. Promotion of foreign direct investment.

8. Privatization of state enterprises, leading to efficient management and improved performance.
9. Deregulation of the economy.
10. Protection of property rights.

It is no coincidence that this programme is called the 'Washington Consensus', for, from the outset, the United States has been the dominant power in the IMF and the World Bank. Unfortunately, however, large portions of the 'development loans' granted by these institutions have either been pocketed by authoritarian political leaders or have enriched local businesses and the Northern corporations they usually serve. Sometimes, exorbitant sums are spent on ill-considered construction projects. Most importantly, however, structural adjustment programmes rarely produce the desired result of 'developing' debtor societies, because mandated cuts in public spending translate into fewer social programmes, reduced educational opportunities, more environmental pollution, and greater poverty for the vast majority of people. Typically, the largest share of the national budget is spent on servicing outstanding debts. For example, in 2005, developing countries paid US$355,025.5 million in debt servicing, while receiving only US$80,534.1 million in aid. Pressured by anti-corporate globalist forces, the IMF and the World Bank were only recently willing to consider a new policy of blanket debt forgiveness in special cases. With the rise of China, however, some commentators have predicted the forging of a new 'Beijing Consensus' the institutional architecture of which might be quite different from the current US-dominated economic paradigm.

As this chapter has shown, economic perspectives on globalization can hardly be discussed apart from an analysis of political process and institutions. After all, the intensification of global economic interconnections does not simply fall from the sky; rather, it is set into motion by a series of political decisions. Hence, while acknowledging the importance of economics in our story of

globalization, this chapter nonetheless ends with the suggestion that we ought to be sceptical of one-sided accounts that identify expanding economic activity as both the primary aspect of globalization and the engine behind its rapid development. The multidimensional nature of globalization demands that we flesh out in more detail the interaction between its political and economic aspects.