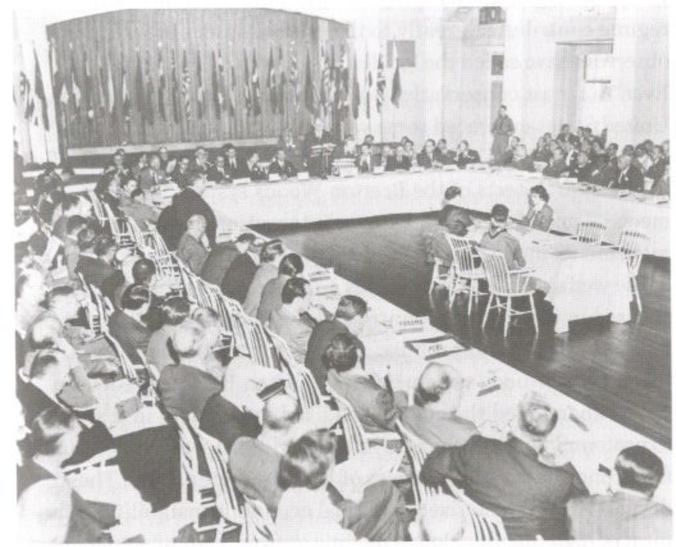
Chapter 3
The economic dimension of globalization

At the beginning of Chapter 2 we noted that new forms of technology configured around the Internet and the social media are among major 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 and standardized means of transportation have stimulated trade in goods and services. Extending their reach around the world, markets have migrated to cyberspace and integrated local, national, and regional economies. Huge transnational corporations (TNCs), powerful international economic institutions, and gigantic regional business and trade networks 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 the Second World War in the sleepy New England town of Bretton Woods (see Illustration 7). Under the leadership of the United States 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 monetary 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, however, individual nations were free to control the permeability of their borders. This allowed national governments to set their own political and economic agendas.



7. **The 1944 Bretton Woods Conference.**

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 turn of the century, 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 proposed by British economist John Maynard Keynes, one of the chief architects 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. In the early 1970s, however, the Bretton Woods system collapsed when President Richard Nixon abandoned the gold-based fixed rate system in response to profound political changes in the world that were undermining the economic competitiveness of US-based industries. The 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 the 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 that 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 emerged as the co-leaders of the 'neoliberal' revolution against Keynesianism (see Box 3). In the same decade, pro-business elites in the USA and Japan consciously linked the novel term 'globalization' to a political agenda aiming at the 'liberation' of state-regulated economies around the world. This budding neoliberal economic order received further legitimization with the 1989–91 collapse of communism in the Soviet bloc.

Box 3 Neoliberalism

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.

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. But there have also been major global economic setbacks like the Great Recession of 2008–10 or the more recent financial volatility in China and the economic crisis in Brazil intensified by the political instability created in the wake of the 2016 impeachment of President Dilma Rouseff. Let us briefly examine these important dynamics of economic globalization.

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 $18.5 trillion in 2015. In that year, China, the world's leading manufacturer, was responsible for 12.7 per cent of global merchandise exports whereas the USA, the world's most voracious consumer, accounted for 12.9 per cent of global merchandise imports.

Indeed, the public debate over the alleged benefits and drawbacks of free trade 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 neoliberal 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 (see Box 4).

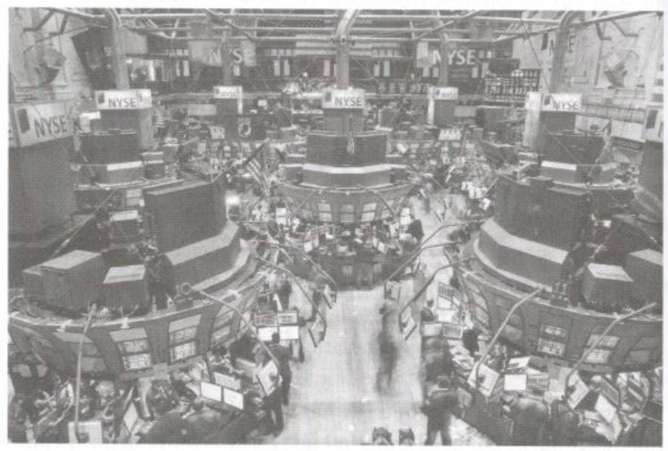
Box 4 Concrete neoliberal measures

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.

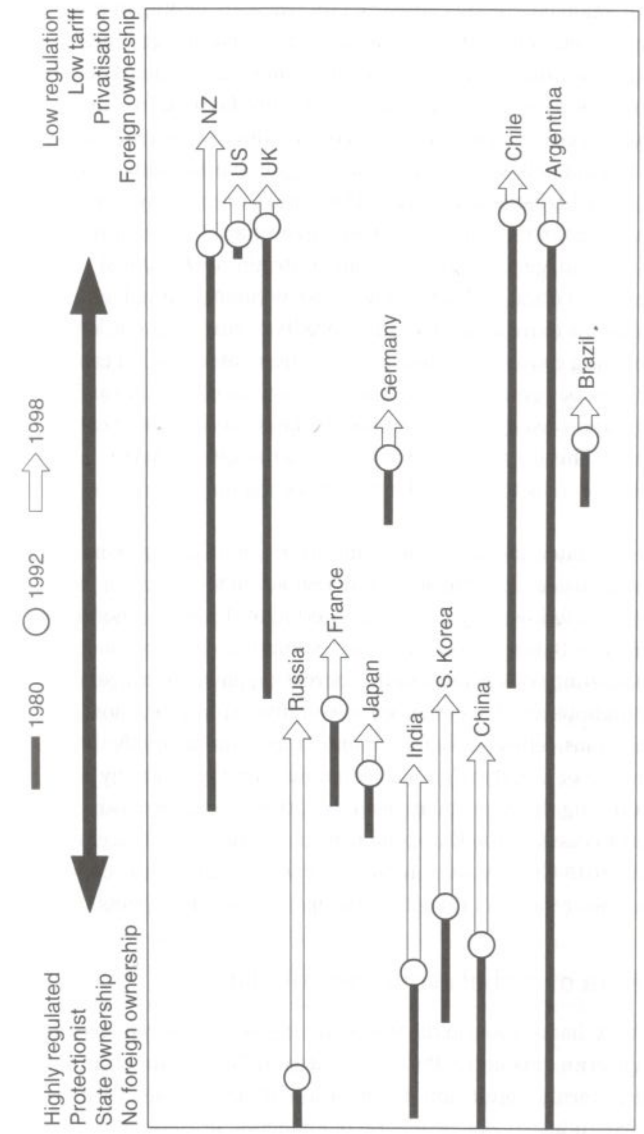
Indeed, there is evidence that some national economies have increased their productivity as a result of free trade. Millions of people have been lifted out of poverty in developing countries such as China, India, or Indonesia. As the 2015 United Nations' Millennium Goal Report shows, the percentage of people living in extreme poverty (on less than $1.25 a day) in the developing world fell from nearly 50 per cent in 1990 to 14 per cent in 2015. Moreover, there are some clear material benefits that accrue to societies through specialization, competition, and the spread of technology. Still, there are still over 700 million people in the world living in extreme poverty. Moreover, as we will discuss in Chapter 8, inequalities in income and wealth have increased within and across nations. Finally, it is less clear whether the profits resulting from free trade have been distributed fairly within and among various populations.

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. Cutting-edge satellite systems and fibre-optic cables provided the nervous system of Internet-based technologies that further accelerated the liberalization of financial transactions (see Figure C). As captured by the snazzy title of Bill Gates's 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 at the world's leading stock exchanges, but also to receive valuable information about relevant economic and political developments (see Illustration 8).

But a large part of the money involved in this 'financialization' of global capitalism that swept the first decade of the new century had 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



8. The New York Stock Exchange.



C. The advance of deregulation and liberalization, 1980–1998.

Source: © Vincent Cable, 1999, *Globalization and Global Governance* (The Royal Institute of International Affairs, 1999), used by permission of Bloomsbury Publishing Plc of the financial growth came from increases in lending in the property sector as well, 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 were betting on commodities or currency rates that did not yet exist. Dominated by highly sensitive stock markets that drive high-risk innovation, the world's financial systems became characterized by extremely high volatility, rampant competition, general insecurity, and outright fraud. Global speculators often took 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. This is precisely what triggered the 1997–8 Asian economic crisis that caused havoc in the region.

A decade later, the increasing volatility of financial flows combined with three decades of neoliberal deregulation to produce a global meltdown followed by an ongoing period of chronic economic instability. 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 evolution of this era of global economic volatility by briefly considering three crucial milestones: 2008/9 and the ensuing Great Recession; the European debt crises that came to a climax in the 2015 Greek government debt crisis; and China's economic slowdown reflected in the 2016 plunge of its stock markets.

The era of global economic volatility

The GFC 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. 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. Moreover, they were backed by positive credit ratings reports issued by credit ratings giants like Standard and Poor's and Moody's. 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. 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 taxpayer. Ultimately, 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 big to fail'. But 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 (see Box 5). The flow of global credit froze to a trickle and businesses and individuals who relied on credit

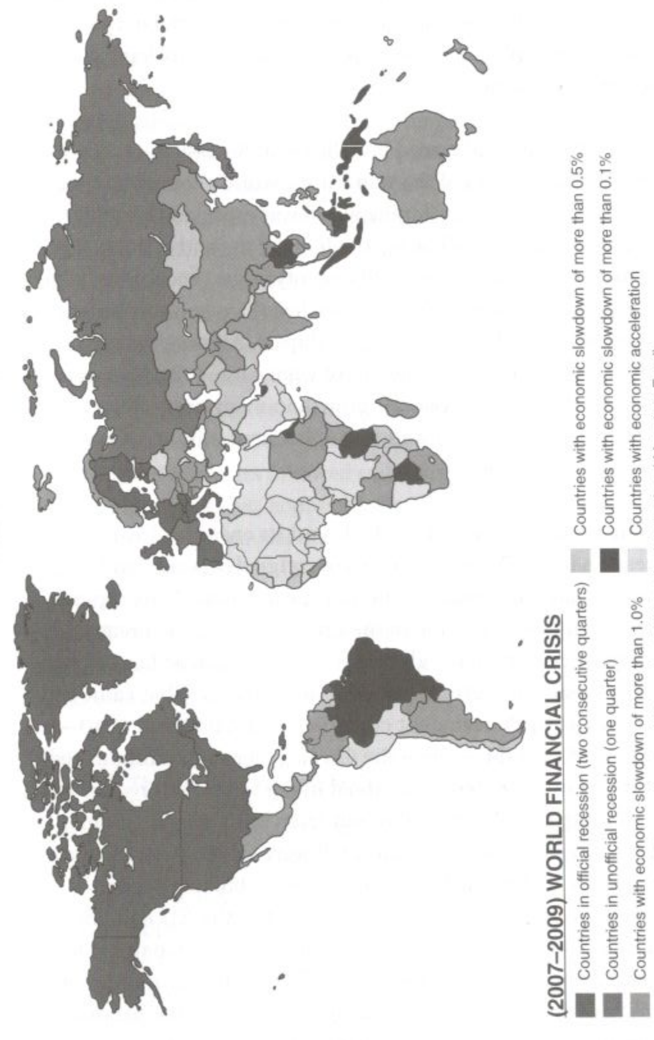
Box 5 The Global Financial Crisis

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!

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, the GFC had turned into the Great Recession: 14.3 trillion dollars, or 33 per cent of the value of the world's companies, had been wiped out. The developing world was especially hard hit with a financial shortfall of $700 billion by the end of 2010. The leaders of the group of the world's twenty largest economies (G20) met repeatedly in the early 2010s 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 in many parts of the world remained anaemic and unemployment numbers came down only very slowly.

Soon it became clear that the GFC and its ensuing Great Recession had spawned a severe sovereign debt crisis and a banking crisis, especially in the European Union. This rapidly escalating financial turmoil in the Eurozone not only threatened the fragile recovery of the global economy but almost bankrupted the 'birthplace of Western civilization'—Greece. What came to be known as the 'Greek debt crisis' began in 2009 and 2010—in the wake of the GFC—when the Greek government announced that it had understated its national budget deficits for years and was running out of funds. Shut out from borrowing in global financial markets, the IMF and ECB were forced to put together two gigantic bailout packages totalling $275 billion in order to avoid the country's financial collapse. But the EU lenders imposed harsh austerity terms in exchange for the loan, which caused further economic hardship and failed to restore economic stability. Greece's economy shrank by a quarter and the national unemployed rate shot up to 25 per cent. This disastrous economic development exacerbated people's resentment of



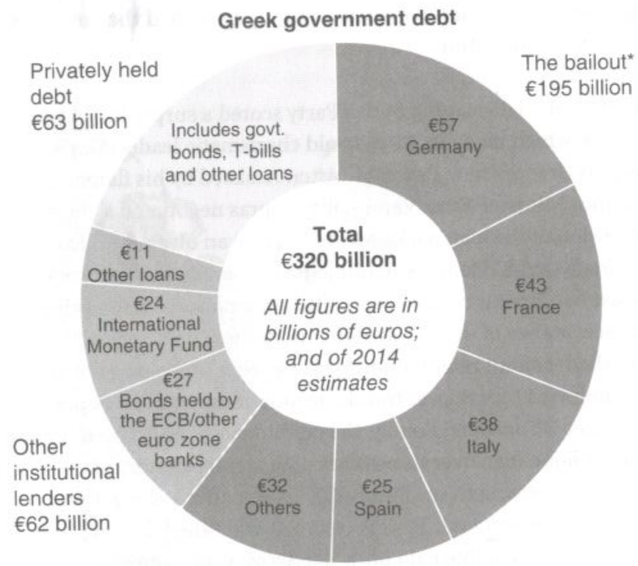
Map 3. Countries falling into recession as a result of the Global Financial Crisis, 2007–2009.

the neoliberal policies of austerity and sharpened the country's political polarization.

In 2015, the left-leaning Syriza Party scored a surprising election victory, which made its 41-year-old charismatic leader Alexis Tsipras Greece's new Prime Minister. Assisted by his flamboyant Finance Minister Yanis Varoufakis, Tsipras negotiated a short extension of the loan packages only to face an ultimatum from the Germany-led EU lenders to implement even further austerity measures. Tsipras refused and called for a national referendum on the acceptance of these draconic conditions. The defeat of the so-called 'bailout referendum' by 61 per cent of the popular vote was followed by weeks of frantic negotiations between Tsipras and the other EU leaders. Finally, the creditors offered an even larger multi-billion loan over three years with similar austerity conditions attached (see Figure D). Taking advantage of the defiant popular mood, Tsipras resigned and called for new elections. His gamble paid off when Syriza won a resounding victory on 20 September 2015.

Less than two months later, however, Tsipras was forced to bow to growing popular fears that the dire economic situation in the country would become even worse without the EU bailout package. After a heated debate, the Greek parliament approved of the debt relief measure and promised to implement its highly contentious conditions that included tax increases for farmers and major cuts in the public pension system. But it remains to be seen whether the EU's third bailout package will finally put Greece on a path toward economic recovery. Early signs have not been promising, as the country had to endure a general strike led by outraged farmers in early 2016 that contributed to a precipitous drop of the Athens Stock Exchange.

But Greece was only one among numerous nations that experienced major market declines in this latest round of global economic instability and volatility. The most surprising



*European countries lent to Greece through two newly created institutions – €53 billion through the Bilateral Loan Facility and €142 billion through the European Financial Stability Facility. These are in addition to each country's contribution to the IMF.

D. Greek National Debt: who are the creditors?

Source: taken from <http://economydecoded.com/2015/07/how-greece-failed/> with permission. *Sources*: Deutsche Bank, IMF, Reuters, Bloomberg

development occurred in the People's Republic of China—a country many observers consider the bastion of economic health accounting for almost 18 per cent of world economic activity—when its stock markets went into free-fall. In early January 2016, the Shanghai Composite and the Shenzhen Composite lost 5.3 per cent and 6.6 per cent, respectively, in less than a week. The turmoil in the Chinese markets caused equally sharp declines in stock exchanges around the world. After years of historic growth rates of 7 to 9 per cent, China's economy was giving way to less spectacular GDP increases of 3 per cent per year. The major reason behind the country's economic woes was its cooling industrial sector—especially weaknesses of its housing and construction markets as well as its

slowing exports. The ripple effects were felt around the world in the form of currency devaluations in South Africa, sharp declines of commodity markets in Brazil and Australia, and disruptions of integrated supply chains in Japan and Korea. But perhaps the most significant impact of the Chinese economic slowdown concerned global oil prices, which fell to the low $30s per barrel in early 2016. As a result, major oil producers such as Russia, Venezuela, and Saudi Arabia took massive hits from the collapse in oil prices. In short, the era of global economic volatility that started with the GFC showed no signs of abating any time soon. In fact, it reached a new climax in June 2016 when 52 per cent of the UK voters opted in favour of the 'leave' option in the 'Brexit' European membership referendum. While the full consequences of the United Kingdom's exit from the European Union will remain unclear for some years, it is a safe bet to expect a continuation of economic volatility in the world.

The power of transnational corporations

Let us now return to our two final topics related to economic globalization: the growing power of TNCs and the enhanced role of international economic institutions. Contemporary versions of the early modern commercial enterprises we discussed in Chapter 2, TNCs are powerful enterprises comprising the parent company and subsidiary units in more than one country, which all operate under a coherent system of decision-making and a common strategy. Their numbers skyrocketed from 7,000 in 1970 to over 100,000 in 2015. 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 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. In 2015, these corporations spent over 4.7 trillion globally buying one another. Some of these recent mergers include the US$164 billion marriage of the world's largest Internet provider, AOL, with entertainment giant Time-Warner in 2001; the 2013 purchase of Vodafone's Verizon Wireless Inc. by Verizon Communications for $130 billion; and the 2015 'beer merger' uniting Anheuser-Busch InBev with SABMiller for the proud amount of $105 billion.

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 2015 UNCTAD *World Investment Report* shows, global foreign direct investment (FDI) undertaken by the 100 largest multinational enterprises is expected to amount to world FDI inflows of $1.7 trillion. Moreover, 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 groundbreaking 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

Corporation	Industry/ Headquarters	Market value (in US$ billion)	Country (global GDP rank)	GDP (in US$ billion)
1. Apple	Computer hardware	725	Turkey (18)	722
2. Exxon Mobil	Oil and gas operations	357	Austria (30)	373
3. Berkshire Hathaway	Investment services, USA	356	United Arab Emirates (31)	339
4. Google	Computing services, USA	346	South Africa (32)	317
5. Microsoft	Computing software & programming, USA	334	Malaysia (33)	313
6. PetroChina	Oil & gas operations	330	Hong Kong (34)	308
7. Wells Fargo	Banking & finance, USA	280	Colombia (39)	274
8. Johnson & Johnson	Medical equipment & supplies, USA	279.7	Pakistan (40)	271
9. Industrial & Commercial Bank of China	Banking & finance, China	275	Chile (41)	240
10. Novartis	Pharmaceuticals, Switzerland	268	Finland (42)	231

E. Transnational corporations versus countries: a comparison.

Sources: created using data taken from Statista, 2015: <https://www.statista.com/statistics/263264/top- companies-in-the-world-by-market-value/>; Knoema World GDP Rankings 2015, p. 10: <https://knoema.com/nwnfkne/world-gdp-ranking-2015-data-and-charts>; Forbes Global 2000: <http://www.forbes.com/sites/liyanchen/2015/05/06/the-worlds-largest-companies/#4cc16a74fe50>

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 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.

No doubt, over the last decades, TNCs have become extremely important global economic players (see Figure E). The 2015 Forbes Global 2000 list reveals that the largest 2,000 TNCs were headquartered in sixty countries and accounted for combined revenues of US$39 trillion, profits of $3 trillion, with assets worth $162 trillion, and a market value of $48 trillion. Thus, TNCs not only influence the economic, political, and social welfare of billions of individuals, but they also rival entire nations in their economic power. Indeed, in 2015, the ten largest TNCs in the world—as measured by market value—compared favourably to the size of some top-50 national economies.

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 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, 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 largely supported neoliberal interests to integrate and deregulate markets around the world (see Box 6).

In return for supplying much-needed loans to developing countries, the IMF and the World Bank demand from their creditor nations

Box 6 Nokia's role in the Finnish economy

Named after a small town in southwest Finland, Nokia Corporation rose from modest beginnings in 1871 to become the world's largest TNC engaged in the manufacturing of mobile phones and converging Internet industries. In 1998, Nokia sold a record 41 million cellular phones worldwide. At the turn of the century, its products connected more than a billion people in an invisible web around the globe. The engine of Finland's economy, Nokia employed 22,000 Finns—not counting the 20,000 domestic employees who worked for companies that depended on Nokia contracts. The corporation represented two-thirds of the stock market's value and one-fifth of the nation's total export. However, Nokia's gift to Finland—the distinction of being the most interconnected nation in the world—came at the price of economic dependency. The corporation produced a large part of Finland's tax revenue, and its annual sales almost equalled the entire national budget. Yet, when Nokia's growth rate slowed in the late 2000s 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. Many Finnish citizens complained that such influence wielded by relatively few Nokia managers translated into tax concessions that adversely affected the country's generous and egalitarian welfare system. After further economic setbacks that translated into more layoffs, Nokia sold its mobile phone business to Microsoft in 2013. However, the tax concessions it had received from the Finnish government bought the company the time it needed to design and implement a new business plan focused on network equipment and innovative wireless technology. The success of this strategy was reflected in Nokia's subsequent US $20 billion acquisition of the French telecommunications company Alcatel-Lucent. By 2016, its workforce had rebounded to over 60,000 employees across 120 countries and it had amassed an annual global profit of US $4.2 billion.

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 in the global South 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 developing countries' national budget is spent on servicing their outstanding debts. According to World Bank and OECD data, in 2010 alone, developing countries paid out $184 billion in debt service while receiving only $134 billion in aid. That year, the public external debt of the global South had reached $1.6 trillion (see Figure F). This sounds like a lot of money, but it represents only 5 per cent of the estimated $29 trillion the United States government spent on the bailout of the banks in the wake of the GFC. Pressured for decades by anti-corporate globalist forces like the Committee for the Abolition of Third-World Debt, the IMF and the World Bank were only recently willing to consider a new policy of blanket debt forgiveness in special cases.

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 in 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 the primary aspect of globalization. Rather, the impact of politics on the forging of global interconnectivity demands that we flesh out in more detail the political dimension of globalization.

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 Afganistan to the USA (2001–2012)	US$1.349 trillion
Cost to convert one billion households to renewable wind energy	US$1.2 trillion
Amount of global South debt 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) in 2015	36
Total amount of multilateral debt owned by the 36 HIPCs that is NOT eligible for cancellation	US$93 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 2014	US$7.8 billion
Mozambique's predicted gross debt in 2020	US$15 billion
Google's net profit in 2015	US$13.7 billion

F. 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://jubileedebt.org.uk/countries>; Statista: <https://www.statista.com/search/?q=net+income>; Committee for the Abolition of Third World Debt: <cadtom.org/Overview-of-debt-in-the South>; IMF 2015 Factsheet, 'Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative': <http://www.imf.rog/external/np/exr/facts/hipc.htm>; Daniel Munevar and Eric Toussaint, 'The Debt of Developing Countries' (October 11, 2013): <http://www.globalresearch.ca/the-debt-of-developing-countries-the devastating-impacts-of-imf-world-bank-economic medicine/5354027>

Chapter 4
The political dimension of globalization

Political globalization refers to the intensification and expansion of political interrelations across the globe. These processes raise an important set of political issues pertaining to the principle of state sovereignty, the growing impact of intergovernmental organizations, and the future prospects for regional and global governance, global migration flows, and environmental policies affecting our planet. Obviously, these themes respond to the evolution of political arrangements beyond the framework of the nation-state, thus breaking new conceptual and institutional ground. After all, for the last two centuries, humans have organized their political differences along territorial lines that generated a sense of 'belonging' to a particular nation-state.

This artificial division of planetary social space into 'domestic' and 'foreign' spheres corresponds to people's collective identities based on the creation of a common 'us' and an unfamiliar 'them'. Thus, the modern nation-state system has rested on psychological foundations and cultural assumptions that convey a sense of existential security and historical continuity, while at the same time demanding from its citizens that they put their national loyalties to the ultimate test. Nurtured by demonizing images of 'outsiders', people's belief in the superiority of their own nation has supplied the mental energy required for large-scale warfare—just as the enormous productive capacities of the modern state have

provided the material means necessary to fight the 'total wars' of the last century.

Contemporary manifestations of globalization have led to the greater permeation of these old territorial borders, in the process also softening hard conceptual boundaries and cultural lines of demarcation. Emphasizing these tendencies, commentators belonging to the camp of globalizers have suggested that the period since the late 1960s has been marked by a radical deterritorialization of politics, rule-making, and governance. Considering such pronouncements premature at best and erroneous at worst, sceptics have not only affirmed the continued relevance of the nation-state as the political container of modern social life but have also pointed to the emergence of regional blocs as evidence for new forms of territorialization. Some of these critics have gone so far as to suggest that globalization is actually accentuating people's sense of nationality. As each group of global studies scholars presents different assessments of the fate of the modern nation-state, they also quarrel over the relative importance of political and economic factors.

Out of these disagreements there have emerged three fundamental questions that probe the extent of political globalization. First, is it really true that the power of the nation-state has been curtailed by massive flows of capital, people, and technology across territorial boundaries? Second, are the primary causes of these flows to be found in politics or in economics? Third, are we witnessing the emergence of new global governance structures? Before we respond to these questions in more detail, let us briefly consider the main features of the modern nation-state system.

The modern nation-state system

The origins of the modern nation-state system can be traced back to 17th-century political developments in Europe. In 1648, the Peace of Westphalia concluded a lengthy period of religious wars among the main European powers following the Protestant Reformation. Based on the newly formulated principles of sovereignty and territoriality, the ensuing model of self-contained, impersonal states challenged the medieval mosaic of small polities in which political power tended to be local and personal in focus but still subordinated to a larger imperial authority. The centuries following the Peace of Westphalia saw the further centralization of political power, the expansion of state administration, the development of professional diplomacy, and the successful monopolization of the means of coercion in the hands of the state. Moreover, nation-states also provided the military means required for the expansion of commerce, which, in turn, contributed to the spread of this European form of political rule around the globe.

The modern nation-state system found its mature expression at the end of the First World War in US President Woodrow Wilson's famous 'Fourteen Points' based on the principle of national self-determination. But Wilson's assumption that all forms of national identity should be given their territorial expression in a sovereign 'nation-state' proved to be extremely difficult to enforce in practice. Moreover, by enshrining the nation-state as the ethical and legal pinnacle of his proposed interstate system, he unwittingly lent some legitimacy to those radical ethnonationalist forces that pushed the world's main powers into the Second World War. Wilson's other idea of a 'League of Nations' that would give international cooperation an institutional expression was eventually realized with the founding of the United Nations in 1945 (see Illustration 9). While deeply rooted in a political order based on the modern nation-state system, the UN and other fledgling intergovernmental organizations also served as catalysts for the gradual extension of political activities across national boundaries, thus simultaneously affirming and undermining the principle of national sovereignty.

As globalization tendencies grew stronger during the 1970s and 1980s, it became clear that the international society of separate

9. The Security Council of the United Nations in session.

states was rapidly turning into a global web of political interdependencies that challenged conventional forms of national sovereignty.

In 1990, at the outset of the First Gulf War, US President George H. W. Bush announced the birth of a 'new world order' whose leaders no longer respected the idea that cross-border wrongful acts were a matter concerning only those states affected. Did this mean that the modern nation-state system based on national sovereignty and autonomy was no longer viable?

The demise of the nation-state?

Globalizers respond to this question affirmatively. At the same time, these observers consider political globalization a mere secondary phenomenon driven by more fundamental economic and technological forces. They argue that politics has been rendered almost powerless by an unstoppable techno-economic juggernaut that will crush all governmental attempts to reintroduce restrictive policies and regulations. Endowing economics with an inner logic apart from, and superior to, politics, these commentators look forward to a new phase in world history in which the main role of government will be to serve as a superconductor for global capitalism.

Pronouncing the rise of a 'borderless world', globalizers seek to convince the public that globalization inevitably involves the decline of bounded territory as a meaningful concept for understanding political and social change. Consequently, they suggest that political power is located in global social formations and expressed through global networks rather than through territorially based states. In fact, they argue that nation-states have already lost their dominant role in the global economy. As territorial divisions are becoming increasingly irrelevant, states are even less capable of determining the direction of social life within their borders. For example, since the workings of genuinely global capital markets dwarf their ability to control exchange rates or protect their currency, nation-states have become vulnerable to the discipline imposed by economic choices made elsewhere, over which states have no practical control.

The group of globalization sceptics disagrees, highlighting instead the central role of politics in unleashing the forces of globalization, especially through the successful mobilization of political power. In their view, the rapid expansion of global economic activity can be reduced neither to a natural law of the market nor to the development of computer technology. Rather, it originated with political decisions made by neoliberal national governments in the 1980s and 1990s to lift international restrictions on capital. Once those decisions were implemented, global markets and new technologies came into their own. The clear implication of this perspective is that national territory still matters. Hence, globalization sceptics insist on the continued relevance of conventional political units, operating in the form of either modern nation-states or global cities linked to national units.

The arguments of both globalizers and sceptics remain entangled in a particularly vexing version of the chicken-and-the-egg problem. After all, economic forms of interdependence are set in motion by political decisions, but these decisions are nonetheless made in particular economic contexts. As we noted, the economic and political aspects of globalization are profoundly interconnected. For example, it has become much easier for capital to escape taxation and other national policy restrictions. In 2016, the 'Panama Papers'—a leaked set of nearly 12 million confidential documents—revealed how wealthy individuals (including government officials) managed to evade national income taxes by hiding their assets in Panamanian offshore companies. Moreover, global markets frequently undermine the capacity of governments to set independent national policy objectives and impose their own domestic standards. Hence, it is difficult not to acknowledge the decline of the nation-state as a sovereign entity and the ensuing devolution of state power to regional and local governments as well as to various supranational institutions.

Political globalization and migration

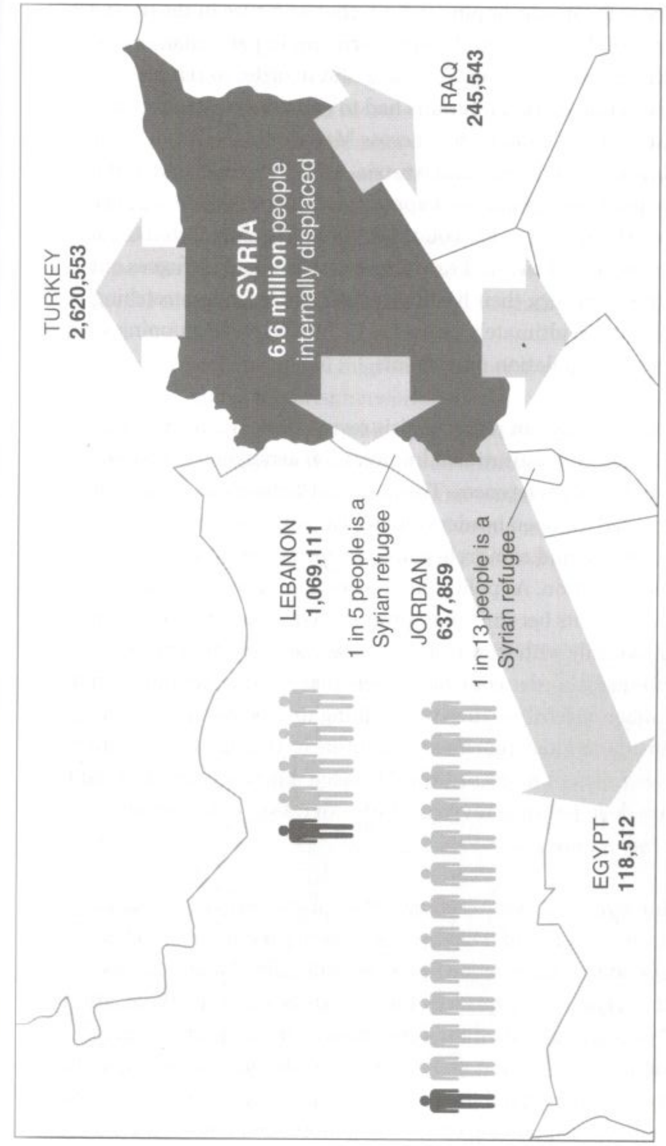
On the other hand, the relative decline of the nation-state does not necessarily mean that governments have become impotent bystanders to the workings of global forces. States can still take measures to make their economies more or less attractive to global investors. In addition, they have continued to retain control over education, infrastructure, and foreign policy. But the intensifying population movements in the era of globalization have challenged some of the most crucial powers of nation-states: immigration control, population registration, and security protocols. Although in 2016 only 2 per cent of the world's population lived outside their country of origin, immigration control has become a central issue in most advanced nations. Many governments seek to restrict population flows, particularly those originating in the poor countries of the global South. Even in the United States, annual inflows of about 1 million legal permanent immigrants during the

2010s are less than the levels recorded during the first two decades of the 20th century.

In order to illustrate the growing problems of nation-states to cope with increasing trans-border migration flows, let us consider a recent example that has proven to be especially challenging: the Syrian refugee crisis. It started in March 2011 when, as part of the wider Arab Uprisings that swept across the Middle East region from Tunisia to the Gulf States, pro-democracy protests erupted in Syria that challenged the authoritarian rule of President Bashar al-Assad and his Baath Party. At first, Assad seemed to bow to mounting domestic foreign pressure to hold free elections and respect basic human rights. But once Russian President Vladimir Putin signalled his support, the Syrian dictator embarked on a confrontational course with pro-democracy demonstrators whom he vilified as 'rebel forces'. The country quickly descended into an all-out civil war that would kill more than 250,000 people over the next five years.

The relentless fighting triggered a humanitarian crisis of truly epic proportions. By 2016, nearly 6 million Syrians—out of a total population of 23 million—had been internally displaced. Close to 5 million people had fled the country in search of both personal safety and economic opportunity (see Map 4). The majority of Syrian refugees ended up in camps in the neighbouring countries of Jordan, Lebanon, Iraq, and Turkey, where they received some humanitarian assistance from local governments, international NGOs such as Mercy Corps and World Vision, and global institutions like the UN. Still, in most cases, the massive refugee flows pouring out of Syria strained the available material resources of host communities and also created significant cultural tensions with domestic populations who saw these 'outsiders' as a drain on their country's economic resources.

In recent years, hundreds of thousands of Syrian refugees have attempted the dangerous trip across the Mediterranean from



Map 4. The Syrian Refugee Crisis.

Turkey to Greece, hoping to find a better future in the prosperous states of the European Union. Germany, in particular, emerged as their preferred place of refuge. But in order to reach their destination, Syrian migrants had to embark on a long route that led them from Greece across Macedonia, Serbia or Croatia, Hungary or Slovenia, and Austria, until they finally arrived in Bavaria hoping for a swift approval of their residence applications. Even though some EU countries like Hungary resorted to rather inhumane policies and drastic measures to keep refugees out of their territory, their hastily erected border fences stretching over many miles ultimately proved to be ineffective in stopping such gigantic population movements.

In fact, the Syrian refugee crisis revealed the inadequacy of the EU's current institutional immigration arrangements based on national preferences. The so-called 'Schengen Agreement' that provided for open borders among EU core countries lacked the robustness and comprehensiveness necessary for coping with this crisis situation. As policy differences among various national governments became more pronounced, some member countries temporarily withdrew from the agreement and reinstituted systematic border controls. Others placed arbitrary limits on the number of refugees they were willing to process and refused to consider a more coordinated approach. Unable to deal with the huge influx of migrants, the EU faced a predicament that laid bare deep political divisions over migration policy among member states.

Moreover, the Syrian refugee crisis also made visible existing cultural fissures and biases. For example, a number of official government ministers in member states like Poland, Slovakia, and Hungary openly expressed their opposition to the 'Islamization of Europe' and stated their preference for Christian refugees. Countries like Germany and Austria, on the other hand, experienced a polarization of public sentiments with roughly even numbers of citizens supporting or opposing more liberal immigration

measures. In the face of such politically explosive divisions, the conservative German government under Chancellor Angela Merkel showed tremendous courage and compassion by welcoming over 1 million refugees in 2015 alone—half of whom hailed from Syria. To put this remarkable number into perspective, this means that Germany accepted more Syrian refugees than the US refugee total for all political refugees for 2015. With additional social and political crises mounting in the global South, the migration crisis in Europe—and in many other parts of the world—is likely to continue for many years, even decades (see Illustration 10).

Finally, the intensifying global migration dynamics coupled with the activities of global terrorist networks—such as the 2015 Paris attacks or the 2016 Brussels bombings by local cells affiliated with ISIL—have revealed the inadequacy of conventional national security routines and protocols based on the modern nation-state system. The globalization of terrorist and crime networks has forced national governments to engage in new forms of

10. Syrian refugees protesting at a makeshift camp in Northern Greece, March 2016.

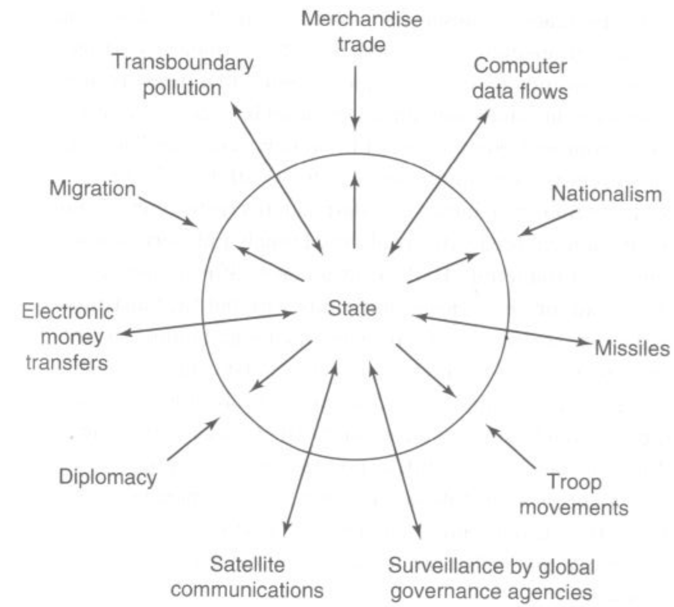
international cooperation. Thus, we can observe a seemingly paradoxical effect of political globalization: states still matter, but at the same time they are increasingly forced into transnational dynamics that undermine their old claims to national sovereignty and non-interference.

In summary, then, we ought to reject premature pronouncements of the impending demise of the nation-state, while also acknowledging its increasing difficulties in performing some of its traditional functions. Contemporary globalization has weakened some of the conventional boundaries between domestic and foreign policies while fostering the growth of supraterritorial social spaces and institutions that, in turn, unsettle both familiar political arrangements and cultural traditions. As the 21st century wears on, people around the world will become more conscious of the fact that they live in a transitional era moving from the modern nation-state system to postmodern forms of global governance.

Political globalization and global governance

Political globalization is perhaps most visible in the rise of supraterritorial institutions and associations held together by common norms and interests (see Figure G). In this early phase of global governance, these structures resemble an eclectic network of interrelated power centres such as municipal and provincial authorities, regional blocs, international organizations, and national and international private-sector associations.

On the municipal and provincial level, there has been a remarkable growth in the number of policy initiatives and trans-border links between various sub-state authorities. For example, Chinese provinces and US federal states have established permanent missions and points of contact, some of which operate relatively autonomously with little oversight from their respective national



G. The nation-state in a globalizing world.

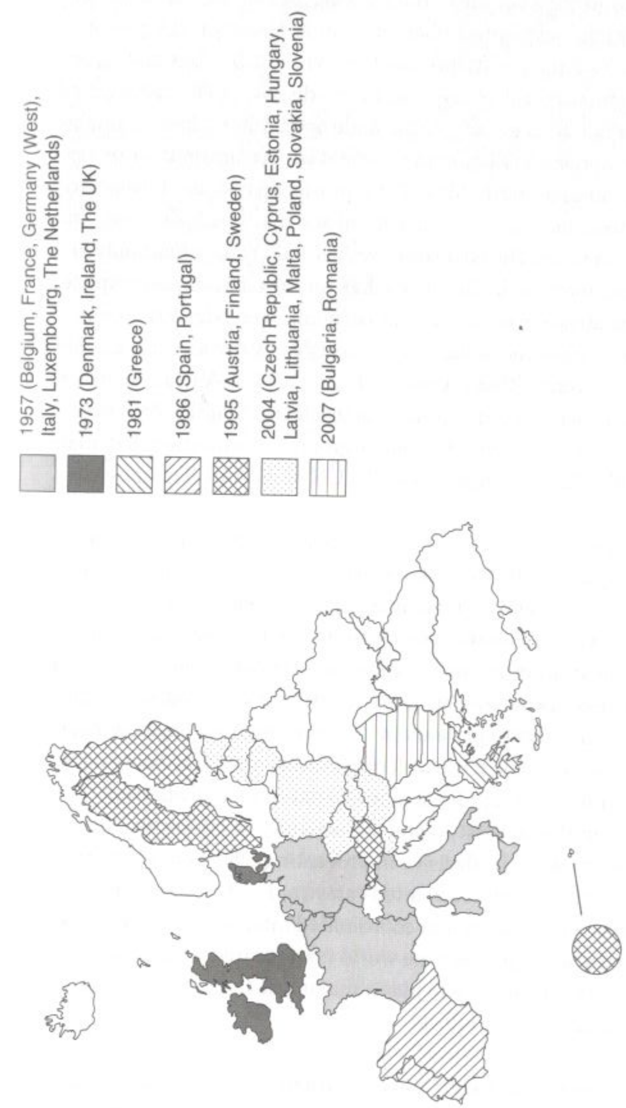
Source: Jan Aart Scholte, 'The globalization of world politics', in John Baylis and Steve Smith (eds), *The Globalization of World Politics*, 2nd edn (Oxford University Press, 2001), p. 22. With permission of Oxford University Press

governments. Various provinces and federal states in Canada, India, and Brazil are developing their own trade agendas and financial strategies to obtain loans. An example of international cooperation on the municipal level is the rise of powerful city networks like the World Association of Major Metropolises that develop cooperative ventures to deal with common local issues across national borders. 'Global cities' such as Hong Kong, London, New York, Shanghai, Singapore, Sydney, and Tokyo sometimes are more closely connected to each other than they are to their national governments.

On the regional level, there has been an extraordinary proliferation of multilateral organizations and agreements. Regional clubs and agencies such as APEC or ASEAN have sprung up across the world, leading some observers to speculate that they will eventually replace nation-states as the basic unit of governance. Starting out as attempts to integrate regional economies, these regional blocs have, in some cases, already evolved into loose political federations with common institutions of governance. For example, the European Community began in 1950 with French Foreign Minister Robert Schuman's modest plan to create a supranational institution charged with regulating French and German coal and steel production. Half a century later, fifteen member states had formed a close community with political institutions that create common public policies and design binding security arrangements. In the first decade of the 21st century, some of the formerly communist countries in Eastern Europe joined the EU, which now extends as far to the East as Latvia and Romania (see Map 5). But, as pointed out in Chapter 8, such an expansionist dynamic is by no means inexorable. The 2016 UK referendum in favour of 'Brexit' is a clear illustration that globalization—and even regionalization—can be reversed.

On a global level, governments have formed a number of international organizations, including the UN, NATO, WTO, and OECD. Full legal membership of these organizations is open to states only, and the decision-making authority lies with representatives from national governments. The proliferation of these transnational bodies has shown that nation-states find it increasingly difficult to manage sprawling networks of social interdependence.

Finally, the emerging structure of global governance has been shaped by 'global civil society'—a social realm populated by thousands of voluntary, non-governmental associations of worldwide reach. International NGOs like Doctors Without Borders or Greenpeace represent millions of ordinary citizens who are prepared to challenge political and economic decisions made by nation-states and intergovernmental organizations.



Map 5. The European Union.

One concrete example of the growing significance of NGOs in managing increasing global interconnectivity was the role of Médicins Sans Frontières/Doctors Without Borders during the dramatic outbreak of the Ebola virus disease in West Africa from December 2013 to early 2016. Made up mainly of doctors and health sector workers from around the world who volunteer their services at any location on earth, MSF/DWB provides assistance to populations in distress such as victims of natural and man-made disasters, and armed conflict. The NGO observes neutrality and impartiality in the name of their medical code of ethics and also maintains complete independence from all political, economic, and religious powers. When Ebola—one of the world's most deadly diseases that can kill up to 90 per cent of those stricken—hit in the West African countries of Guinea, Sierra Leone, and Liberia in late 2013, MSF/DWB were among the first responders on the ground, much earlier than many of the aid initiatives organized by the UN or individual nation-states.

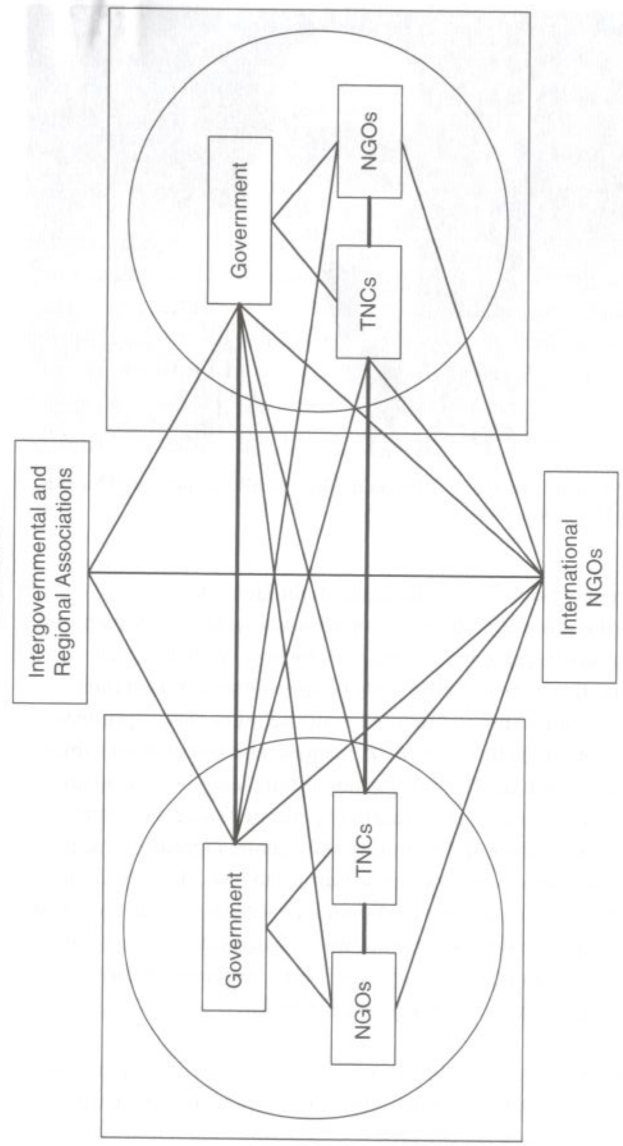
At its peak, MSF/DWF employed nearly 4,000 national staff and 325 expat staff in West Africa to combat a disease that threatened to turn into a global pandemic, especially when isolated cases of virus transmission were reported in North America and Europe (see Illustration 11). By the time the WHO declared an official end to the Ebola epidemic in January 2016, MSF/DWB had treated more than 10,000 patients in dozens of their management centres in the region. Given the lack of political will by national and local governments to rapidly deploy assistance to help affected communities in West Africa, the activities of NGOs like MSF/DWB proved to be decisive in preventing what could have easily turned into an unprecedented catastrophe of global proportions. There is no question that coordinated international steps must be taken to better prepare the world for a future outbreak, and international NGOs will play a major role in both designing and coordinating those efforts.

As a result of the tough lessons learned in the struggle against pandemics and other global problems, some global studies experts

11. MSF health worker in Liberia holding a child suspected of having Ebola, October 2014.

believe that political globalization might facilitate the strengthening of democratic transnational social forces anchored in this thriving sphere of global civil society. Predicting that democratic rights will ultimately become detached from their narrow relationship to discrete territorial units, these optimistic voices anticipate the creation of a democratic global governance structure based on Western cosmopolitan ideals, international legal arrangements, and a web of expanding linkages between various governmental and non-governmental organizations. If such a promising scenario indeed comes to pass, then the final outcome of political globalization might well be the emergence of a 'cosmopolitan democracy' that would constitute the basis for a plurality of identities flourishing within a structure of mutual toleration and accountability (see Figure H).

According to David Held, one of the chief academic proponents of this view, such a cosmopolitan democracy of the future would contain the following features:



H. Incipient global governance: a network of interrelated power centres.

Source: adapted from Peter Willets, "Transnational actors and international organizations in global politics", in Baylis and Smith, *The Globalization of World Politics*, 5th edn (Oxford University Press, 2011), p. 339. With permission of Oxford University Press

1. A global parliament connected to regions, states, and localities;
2. A new charter of rights and duties locked into different domains of political, social, and economic power;
3. The formal separation of political and economic interests;
4. An interconnected global legal system with mechanisms of enforcement from the local to the global.

A number of less optimistic commentators have challenged Held's idea that political globalization is moving in the direction of cosmopolitan democracy. Most criticisms boil down to the charge that his benign vision indulges in an abstract idealism that fails to engage current political tensions on the national level of public policy such as the clashing immigration perspectives within the EU. Global governance sceptics have also expressed the suspicion that the proponents of cosmopolitan democracy do not consider in sufficient detail its cultural feasibility. In other words, the worldwide intensification of cultural, political, and economic interactions makes the possibility of resistance and opposition just as real as the benign vision of mutual accommodation and tolerance of differences. To follow up on this cultural dimension of globalization, let us turn to Chapter 5.