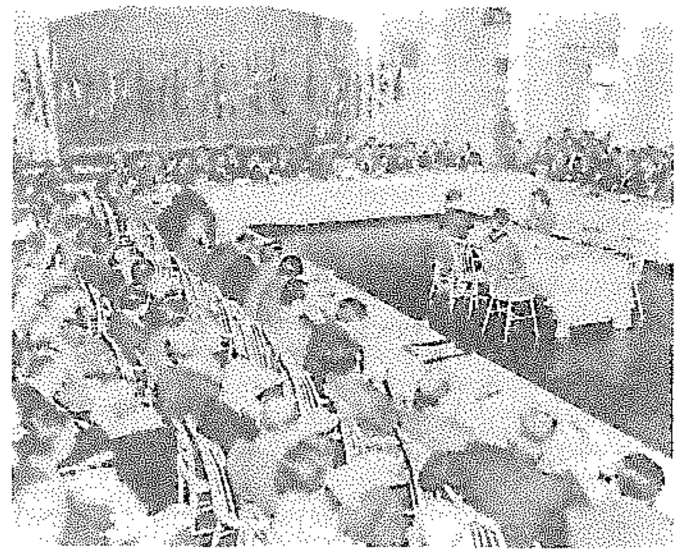
Chapter 3
The economic dimension of globalization

In Chapters 1 and 2, we noted that evolving forms of digital technology configured around the Internet and social media are often considered the hallmarks of contemporary globalization. Indeed, technological progress of the magnitude seen in the last three decades is also a good indicator for the occurrence of profound social transformations centred on the *market*. Changes in the ways 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 the Asian Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the Southern Common Market (MERCOSUR), and 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 emergence of a new international economic order assembled at a watershed economic conference held towards the end of the Second World War in the sleepy New England town of Bretton Woods (see Figure 6). Under the leadership of the United States and Great Britain, the major powers of the global North agreed to reverse their protectionist policies of the interwar period. In addition to arriving at a firm commitment to expand trade, the participants of the conference also established 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.



6. The 1944 Bretton Woods Conference.

The Bretton Woods regime (BWR) also established 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 BWR contributed greatly to the establishment of what some observers have called the 'golden age of controlled capitalism' (1945–80). Trade and foreign direct investment (FDI) expanded faster than the world GDP and the share of exports in global output tripled from less than 5 per cent in 1945 to 16 per cent in 1981. Even conservative political parties in Europe and the United States embraced some version of state interventionism proposed by the celebrated British economist John Maynard Keynes, one of the chief architects of the BWR. A wage compromise between big business and labour together with strong mechanisms of state control over international capital movements made possible full employment and the expansion of the welfare state in the wealthy countries of the global North. Rising wages and increased social services secured a temporary class compromise that facilitated the expansion of the middle class.

In 1971, however, the BWR took a severe blow when President Richard Nixon abandoned the gold standard—the long-term basis

for setting the rules of economic management based on stable rates of currency exchange—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. Progressive 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 (see Box 4).

In the 1980s, British Prime Minister Margaret Thatcher and US President Ronald Reagan emerged as the co-leaders of the

Box 4. Neoliberalism

Neoliberalism is rooted in the classical liberal ideals of Adam Smith (1723–90) and David Ricardo (1772–1823), British thinkers who 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.

neoliberal revolution against the Keynesian premise that the global economy works best when national governments are free to set their own political and economic agendas. Conversely, neoliberals asserted that releasing private economic activity from government control would provide a tremendous lift to world trade, investment, and living standards. To boost the legitimacy of their unorthodox ideas, pro-business elites in the global North consciously linked the novel term 'globalization' to a political agenda aimed at the 'liberation' and deregulation of state-regulated economies around the world. This budding neoliberal economic-political order received further legitimization with the 1989–91 collapse of communism in the Soviet bloc.

Since then, the three most significant dynamics related to accelerated economic globalization have been the internationalization of trade and finance, the increasing power of transnational corporations and large investment banks, and the role of international economic institutions like the IMF, the World Bank, and the WTO. In the remainder of this chapter, we will examine these important features of economic globalization as well as some of the challenges that have emerged in recent years.

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 $19.5 trillion in 2018. However, trade in goods and services has stagnated since the 2008 Global Financial Crisis (GFC). In fact, the 2018 KOF Globalization Index—a major index measuring primarily object-extended forms of globalization—recorded a downward movement in 2017, the first since 1975. The index is expected to flat-line or further decrease over the next several years. Often associated with globalization, increasing automation is estimated to result in anything from a 20 to a 30 per cent fall in

global merchandise trade over the next decade. This raises the question whether we have reached *peak trade* and are approaching the limits of economic integration.

Ever since pro-trade tariff national populists came to power in the United States and some European countries in the 2010s, the public debate over the alleged benefits and drawbacks of free trade has been raging at a feverish pitch. Moreover, wealthy pro-market Northern governments and regional trading blocs have been hampered in their efforts to establish a single global market through far-reaching trade-liberalization agreements. For example, the protectionist Trump administration withdrew from the Trans-Pacific Partnership (TPP) in 2017. This far-reaching agreement would have established the largest free-trade trading bloc in the world. Still, the remaining eleven countries—including China, Canada, and Australia—managed to salvage the deal by signing a revised version of the treaty, called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

While admitting that neoliberal sets of trade rules can override national legislation, a number of pro-free trade governments have held fast to the original neoliberal promise that the elimination or reduction of existing trade barriers among nations would 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 5).

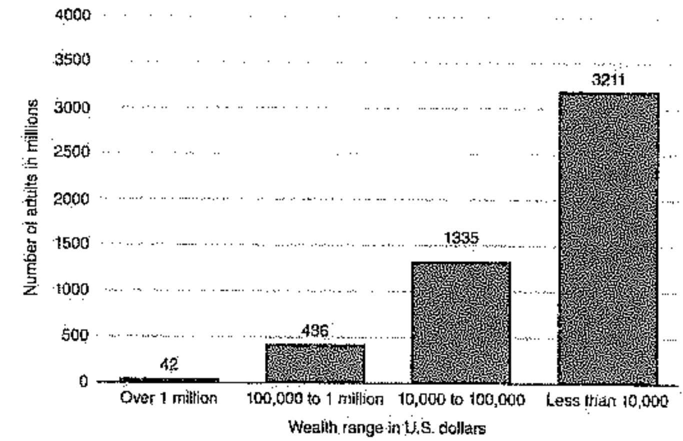
Indeed, there is evidence that some national economies have increased their productivity as a result of free trade. Millions of people have been lifted out of poverty in developing countries such as China, India, Vietnam, and Indonesia. As 2018 World Bank data show, the percentage of people living in extreme poverty (on less than $1.90 a day) fell from nearly 50 per cent in 1990 to an astonishing 8.6 per cent in 2016. Moreover, there are some clear material benefits that accrue to societies through

Box 5. 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 downsizing of government.
9. The expansion of international markets.
10. The removal of controls on global financial flows.

economic specialization, competition, and the massive spread of new technologies.

On the flipside, however, there are today still over 730 million people in the world living in extreme poverty. The UN recently announced that its target of bringing this number down to less than 250 million by 2030 will not be met. In addition, inequalities in income and wealth have skyrocketed especially *within* nations, suggesting that the benefits of neoliberal globalization accrue disproportionally at the top. As the 2018 Annual Oxfam Report shows, the 26 richest billionaires in the world own as many assets as the 3.8 billion people who make up the lower income half of the planet's population. While the number of billionaires has doubled in the decade since the 2008 GFC, the share of tax revenues paid by large corporations has dropped significantly. Finally, empirical data demonstrate that profits resulting from free trade have not been distributed fairly within and among various income groups. According to the US-based Economic Policy Institute, chief executives of America's top 350 companies earned 312 times



B. Global wealth distribution in 2018, by net worth of individuals (in millions).

more than the average worker in 2018. In 1965, the ratio of CEO to worker pay stood at only 20:1 (see Figure B).

The internationalization of trade has gone hand in hand with the liberalization of financial flows. 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. As captured by the snazzy title of Bill Gates's best-selling book at the turn of the 21st century, *business@the-speed-of-thought* has become commonplace today. Millions of individual investors utilize global real-time electronic investment networks not only to place their orders at the world's

7. **The New York Stock Exchange.**

leading stock exchanges, but also to receive valuable information about relevant developments (see Figure 7).

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 assembling machines or organizing raw materials and employees to produce saleable commodities. Most of the financial growth came from increases in lending in the property sector, often in the form of *high-risk hedge funds* and other purely money-dealing currency and securities markets, which seek 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 high volatility, brutal competition, general insecurity, and even outright fraud. Global speculators often took advantage of weak financial and banking regulations to make astronomical profits in the 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 unleashed by three decades of neoliberal deregulation produced a global meltdown—the 2008 GFC—followed by an ongoing period of chronic economic instability. Similar to current trade-flow weaknesses, transnational bank flows and foreign-direct investment have stagnated at lower levels since the GFC. Cross-border financial flows have dipped from 22 per cent of world GDP in 2007 to merely 6 per cent in 2016—about the same level as in 1996. While the costs of communication have been falling quickly and consistently over the past decades, global transportation costs have proved to be more jittery and sluggish, plagued by uncertainty around highly volatile oil prices as well as unstable consumption patterns.

Before we continue our exploration of economic globalization with respect to the increasing power of TNCs and the enhanced role of international economic institutions, let us pause for a moment to examine briefly three crucial milestones in the evolution of the current era of global economic volatility: the 2008 GFC and the ensuing Great Recession; the European Sovereign Debt Crisis (ESDC) that came to a climax with the Greek government debt crisis during the 2010s; and the US–China trade conflict at the end of that decade.

A global era of 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 of the US Federal Reserve Bank aimed at keeping interest rates low and credit flowing abundantly, investment banks around the world 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 taxpayers. Ultimately, both the conservative Bush II and the liberal Obama administrations found common ground in spending hundreds of billions of dollars on distressed mortgage securities, sometimes in return for a government share in the businesses involved.

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 6). 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, and unemployment shot up, as the world's stock markets dropped dramatically.

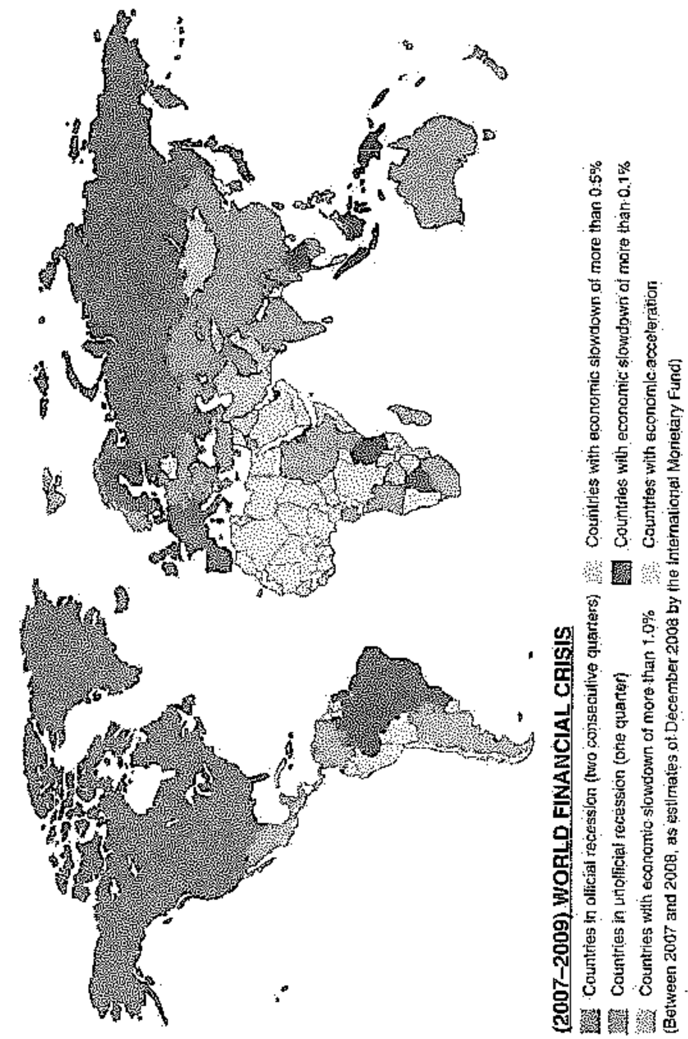
By 2009, the GFC had turned into what came to be known as the *Great Recession*: 14.3 trillion dollars, or 33 per cent of the value of the world's companies, had been wiped out. The developing world was especially hard hit by the declining demand for their exports. The leaders of the group of the world's twenty largest economies

Box 6. 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!

(G20) met repeatedly in the early 2010s to devise a common strategy to forestall a global depression (see Map 3). Although most countries were slowly pulling out of 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 EU. This rapidly escalating financial turmoil in the Eurozone not only threatened the fragile recovery of the global economy, but also came close to bankrupting the birthplace of Western civilization—Greece. What came to be known as the 'Greek debt crisis' began in 2009 and 2010 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 unemployment rate shot up to 25 per cent. This disastrous economic development



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

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

In 2015, Greece's left-leaning populist Syriza Party scored a surprising election victory, making its charismatic leader, Alexis Tsipras, the new Prime Minister. After multiple rejections of a tough bailout package proposed by Germany-led EU lenders and the defeat of a national referendum on the package by 61 per cent of the popular vote, Tsipras was nonetheless forced to bow to growing popular fears that the dire economic situation in the country would become even worse without the humiliating EU bailout package. After heated debates, the Greek parliament approved of the debt relief measure and promised to implement its highly contentious conditions, which included tax increases for farmers and major cuts in the public pension system. As a result of Greece's capitulation, the EU creditors offered an even larger multi-billion loan over three years, albeit with similar austerity conditions attached, which caused continuous political upheaval and unrest in the troubled country.

For the entire decade of the 2010s, Greece had to rely on international creditors to keep its finances afloat, and tens of thousands of young people left the country in search of greater economic opportunities. While the Greek economy recorded a modest turnaround reflected in an annual growth rate of about 2 per cent from 2017 to 2019, most ordinary citizens complained that they were not feeling any significant improvement in their lives. This enduring popular dissatisfaction corresponded to the country's stubbornly high unemployment rate of 18 per cent as late as 2019. As a result of these enduring economic woes, the Syriza Party lost the July 2019 national election to the centre-right Democracy Party in a landslide. The new Prime Minister, Kyriakos Mitsotakis, a Harvard-educated lawyer, promised to return the country to economic health as well as tighten immigration restrictions.

But Greece was only one among numerous nations that experienced major market declines in the current of global economic instability and volatility. The most surprising development occurred in early 2016 in the People's Republic of China—a country many observers consider the bastion of economic health accounting for over 9 per cent of world economic activity—when its stock markets went into free-fall. 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 averaging 8 to 9 per cent, China's economy began to record less spectacular GDP increases around 6 to 7 per cent in ensuing years, yet its economic growth has remained ahead of that in Western countries.

This ominous 2016 slowdown in the Chinese economy coincided with the election of a protectionist American president. As the world's leading manufacturer, China was responsible for 12.8 per cent of global merchandise exports whereas the USA, the world's most voracious consumer, accounted for 13.2 per cent of global merchandise imports. In 2018, referring to this trade imbalance as the 'greatest theft in the history of the world—committed by China', President Donald Trump fired the opening shot in what threatened to become a full-blown trade war by announcing a 10 per cent tariff on $200 billion worth of Chinese goods. A year later, his administration slapped additional tariffs of up to 25 per cent on $250 billion worth of Chinese products and threatened to levy further tariffs worth $325 billion. It did not take long for China to impose retaliatory tariffs of up to 25 per cent on $110 billion worth of US goods, in the process, doubling duties on American agricultural and fish products from an average of 21 per cent to 42 per cent. In addition, President Xi Jinping threatened to implement punitive qualitative measures that would negatively affect US businesses operating in China.

Defiantly waging his trade battles outside the agreed-upon WTO framework, President Trump's tariff punishments were not reserved for China alone, but were also meted out to America's historically most reliable trading partners, Mexico, Canada, Japan, and the EU. At the time of this writing, the brewing trade war has already chilled global business investment. It has also raised fears of a global economic slowdown, thus signalling the continuation of a climate of global financial volatility that has existed since the 2008 GFC. Even the so-called 'economic boom' in the USA under the Trump administration that saw a significant rise of stock markets and a low unemployment rate of 3.6 per cent in mid-2019, is built upon mostly low-paying jobs in the service industry and other precarious and part-time jobs that have kept wages stagnant for nearly three decades. In the uncertain Brexit environment in the UK, matters were far worse. The country's annual rate of productivity growth averaged a dismal 0.4 per cent in the decade after the 2008 GFC, and inflation-adjusted wages have fallen sharply. In Chapter 8, we will return to a discussion of what these volatile economic dynamics might mean for the future of globalization.

The power of transnational corporations

Let us now return to our two remaining 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 2018. Enterprises like Walmart, Sinopec Group, China National Petroleum, Royal Dutch Shell, Exxon-Mobil, and Toyota Motor 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 (see Table 1). If we substituted 'revenue' for 'market value', five out of the top ten TNCs would be headquartered in China, including the No. 1 company: Industrial and Commercial Bank of China. Indeed, the gap between the USA and China is shrinking: the former has 575 companies listed on the 2019 Forbes Global 2000 list of the world's 2,000 largest TNCs compared to the latter's 309. Headquartered in 61 countries and accounting for combined revenues of more than US$40 trillion, these top-2,000 TNCs produced profits of $3.2 trillion, held assets worth $186 trillion, and represented a market value of $57 trillion.

In order to maintain their command posts in the global marketplace, TNCs frequently merge with their competitors. In 2018, TNCs spent over $4.6 trillion globally buying one another—the most since record-keeping began nearly four decades ago. Some of these recent mega-mergers include the US$130 billion marriage of Dow Chemical and DuPont in 2015; the 'mother of all beer mergers' uniting Anheuser-Busch InBev with SABMiller for the proud amount of US$105 billion in 2015; the US$278 billion consolidation of China's biggest coal miner, Shenhua Group, with China Guodian Corporation, the country's largest coal-fired power generators, in 2017; and the US$121 billion union of United Technologies (Aerospace Division) with giant arms manufacturer and major US defence contractor Raytheon in 2019.

TNCs have consolidated their global operations in what has remained a largely deregulated global labour market. The availability of cheap labour, resources, and favourable production

Table 1. Transnational corporations versus countries: a comparison (2018)

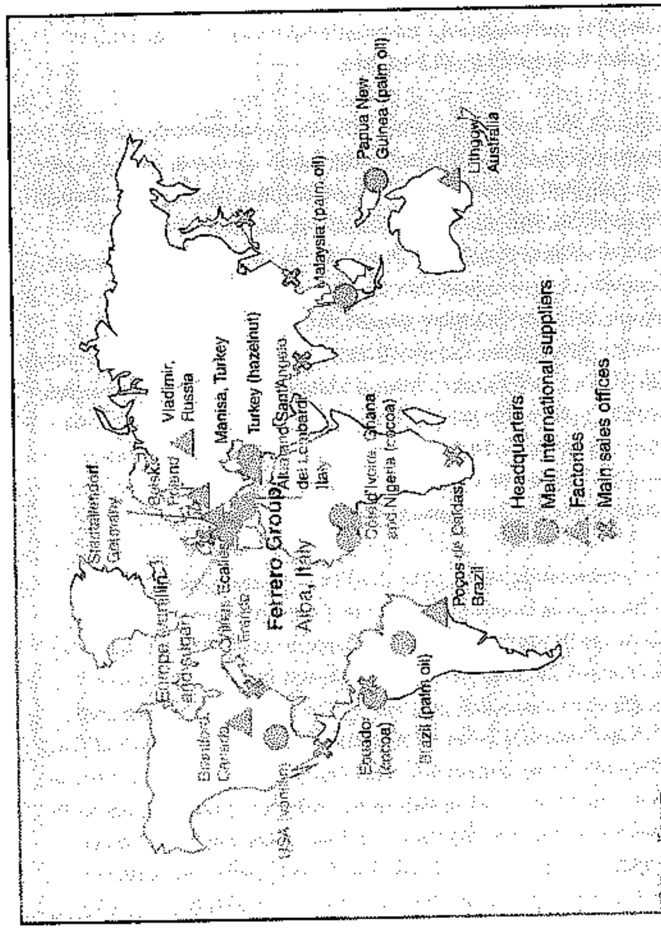
Corporation	Industry/Headquarters	Market value (in US$ billion)	Country (global GDP rank)	GDP (in US$ billion)
1. Apple	Computer hardware	725	Turkey (18)	722
2. Exxon Mobil	Oil and gas operations	357	Austria (30)	373
3. Berkshire Hathaway	Investment services, USA	356	United Arab Emirates (31)	339
4. 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

Sources: created using data taken from Statista, 2019: <https://www.statista.com/statistics/263264/top-companies-in-the-world-by-market-value/>; Knoema World GDP Rankings 2018: <https://knoema.com/nwnfkne/world-gdp-ranking-2018-gdp-by-country-data-and-charts>; Forbes Global 2000: <http://www.forbes.com/global2000/#1150f87933ad>

conditions in the global South has enhanced corporate mobility and profitability. Accounting for over 70 per cent of world trade, TNCs are responsible for massive foreign direct investments (FDI). As the 2019 UNCTAD *World Investment Report* shows, global FDI undertaken by transnational enterprises in 2019 is expected to amount to $1.5 trillion.

No doubt, the immense power of TNCs has profoundly altered the structure and functioning of the world 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. In particular, their ability to disperse manufacturing processes into many discrete phases carried out in many different locations around the world has globalized economic production. Immense transnational production networks allow TNCs like Walmart, General Motors, or Volkswagen to break down the production process into detachable component phases that can be dispersed throughout the world. Such 'global value chains' also allow for a faster and more efficient distribution and marketing of their products on a global scale (see Map 4).

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 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. Similarly, Walmart admitted in 2019 to violating the US Foreign Corrupt Practices Act by making illegal bribery payments to



Map 4. The Nutella® Global Value Chain.

foreign government officials in order to open new production locations around the globe at extremely favourable terms. Walmart's guilty plea resulted in a US$282 million fine, a rather paltry figure compared to its massive US$7 billion profit generated in 2018.

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 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 7, let us focus here on the other two institutions. As pointed out, the IMF and the World Bank emerged from the BWR. 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 7).

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* (SAPs). Unleashed on developing countries in the 1990s, this set of neoliberal policies is often referred to as the 'Washington Consensus' (WC). It was devised and codified by John Williamson, who was an IMF adviser in the 1970s. The various sections of the WC were mainly directed at countries with large foreign debts remaining from the 1970s and 1980s. The official purpose of Williamson's framework was to reform the internal economic mechanisms of debtor countries in

Box 7. Nokia's role in the Finnish economy

Named after a small town in south-west 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 2014. However, the tax concessions it had received from the Finnish goverment 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 and its return to the mobile and smartphone market in 2017. By 2018, its workforce had rebounded to over 103,000 employees across 130 countries and the company reported revenue of US$26 billion.

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 WC spelled out a new form of colonialism. Its ten points, as defined by Williamson, required governments to implement the following SAPs 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 WC, 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, SAPs 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. In fact, the total external debt of emerging and developing countries skyrocketed from US$70.2 billion in 1970 to US$6.8 trillion in 2013. A 2018 analysis from Jubilee Debt Campaign shows that average government external debt payments across the 126 developing countries for which data were available have increased to 10.7 per cent of government revenue in 2017, the highest level since 2004. According to comprehensive World Bank and OECD data, developing countries paid out, in 2010, $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. This sounds like a lot of money, but it represents only 5 per cent of the estimated $29 trillion the US government spent on the bailout of the banks in the wake of the 2008 GFC. Pressured for decades by anti-corporate globalist forces like the Committee for the Abolition of Third-World Debt or the Jubilee Debt Campaign, the IMF and the World Bank have only recently been 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 processes and institutions. After all, the intensification of global economic interconnections—as well as recent challenges to it—does not simply fall from the sky. Rather, it is a set of processes put into motion together with a series of related political decisions. Hence, while acknowledging the importance of economics in our exploration 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. For example, the impact of *politics* on the forging of global interconnectivity demands that we flesh out in more detail the political dimension of globalization.


STUDYDADDY
Get Homework Help
From Expert Tutor
Get Help