

# GLOBALISATION – TO WHAT END?\*

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## I

By the end of 1990, foreign direct investment – that is, investment in manufacturing, real estate, raw materials extraction, financial institutions, etc., made by capitalists of all lands outside their national borders – reached over \$1.5 trillion. Actually, this official estimate grossly understates the case because it is based on book values. But even as a minimum estimate, what is significant about this number is not only its size but the unprecedented speed with which it has grown in the last two decades: the amount directly invested in foreign lands nearly tripled in the 1980s alone. Moreover, this investment went far beyond manufacturing and the extraction of raw materials. To an ever larger extent foreign capital spread to such fields as finance, real estate, insurance, advertising, and the media.

This upsurge and diversification of globalisation has been introducing new economic and political features in the countries of both the periphery and the core. In the periphery, foreign capital has penetrated more widely and deeply than ever before. In the core, the change of direction has helped produce in the world's key money markets an extraordinary spiralling of credit creation, international flows of money capital, and speculation.

This new stage of globalisation has meanwhile given rise to questions about its longer-run significance. A widely accepted theory visualises the erosion of national sovereignty at the centres of capitalism, presumably to be replaced by an 'international' of capital that will make and enforce the rules of international relations. The more thoughtful members of the ruling capitalist class are well aware how chimerical the notion of a rising international of capital is. It is true that in view of the growing complexity and the many pitfalls in the world of global finance, they seek ways to strengthen, or create new, international institutions which can help to minimise the potential chaos they face. But as much as the need is

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understood in the abstract, and as many steps as have been taken in the hope of greater cooperation, there is no letup in the drive of nations to acquire more power and wealth. The upshot is that the speeded-up globalisation of recent years has not led to harmony. On the contrary, as we will try to show, it is itself a product of growing disharmony. Contrary to widespread expectations, sources of tension among the leading capitalist powers have increased side by side with their growing interdependence. Nor has the geographic spread of capital reduced the contradictions between the rich and poor nations. Although a handful of third-world countries, benefitting from the globalisation process, have made noteworthy progress in industrialisation and trade, the overall gap between core and periphery nations has kept on widening.

For the sake of perspective, it is worth recognising that the recent splurge in globalisation is part of an ongoing process with a long history. To begin with, capitalism was born in the process of creating a world market, and the long waves of growth in the core capitalist countries were associated with its centuries-long spread by conquest and economic penetration. In the past as in the present, competitive pressures, the incessant need for capital to keep on accumulating, and the advantages of controlling raw material sources have spurred business enterprise to reach beyond its national borders. The tempo and nature of expansion has of course varied over time, influenced by changes in political and economic conditions and the available technology for making war, transporting goods, and communicating.

While the expansion of capitalism has always presupposed and indeed required cooperation among its various national components – with respect to transportation facilities, weights and measures, monetary and credit arrangements, etc. – there never has been a time when these same national components ceased to struggle each for its own preferment and advantage. Centrifugal and centripetal forces have always coexisted at the very core of the capitalist process, with sometimes one and sometimes the other predominating. As a result, periods of peace and harmony have alternated with periods of discord and violence. Generally, the mechanism of this alternation involves both economic and military forms of struggle, with the strongest power emerging victorious and enforcing acquiescence on the losers. But uneven development soon takes over, and a period of renewed struggle for hegemony emerges.

### *The rise and decline of hegemonic powers*

If we look back over the two centuries or so since the start of the industrial revolution, we find two periods which were clearly dominated by a hegemonic power: the British ascendancy in the middle of the nineteenth

century and the US predominance in the middle of the twentieth. Interestingly enough, there were striking similarities in the rise and fall of both of these hegemonies.

Dating of historic eras is always somewhat arbitrary, but roughly speaking we can say that British hegemony lasted from the late 1840s to the early 1870s. Its rise was clearly associated with what was for that period an unprecedented boom, during which time Great Britain was by far the largest and strongest industrial and trading power. The military underpinning for its supremacy in foreign trade and colonial acquisitions was the unquestioned mastery of seapower. Lacking a sufficiently large army to control the continent, British rule was buttressed by a system of alliances designed to maintain a balance of power in Europe. The ideological backup came from the vigorous advocacy and promotion of the gold standard and the principles of free trade. The international gold standard, managed by the Bank of England, was in effect a sterling standard. As such, it was an important pillar of British economic superiority. And free trade clearly conferred an enormous advantage on the country with the most advanced manufacturing capacity.

The days of British glory, however, were numbered as the manufacturing capacity and exports of countries on the continent and the United States began to catch up. Although British predominance did not vanish overnight, its slide from the top was clearly marked as the Great Depression of 1873–1896 took its toll. Competition in foreign trade grew to the point where protectionism began to replace free trade. Intensified rivalry for additional economic and military space resulted in a mad scramble for colonies. The colonial powers acquired an average of some 240,000 square miles per year between the late 1870s and 1914, almost three times the average for the first 75 years of the nineteenth century. The German mark **increasingly** made inroads on the pound sterling's privileged role, threatening to unseat the London money market as regulator of the world financial system. Even Britain's naval preeminence declined in an accelerated arms race. Under these conditions, the traditional balance-of-power arrangements no longer served as a reliable guarantor of peace. And for three quarters of a century after the peak of Britain's hegemony world affairs were characterised by chaos and disharmony: two world wars, the Great Depression of the **1930s**, abandonment of the gold standard, and the breakup of the international system into separate trading and currency blocs.

Eventually, however, a new international capitalist world order was once again built, this time out of the ashes of the Second World War. And again under the auspices of a hegemonic power – one with unquestionable primacy in arms, productive capacity, and finance, sufficient to whip the rest of the capitalist world into shape and run it. In place of the earlier gold standard, the US dollar was enshrined by the Bretton Woods Agreement

(1944) as the leading international currency, underpinned by Washington's undertaking to redeem dollars held by central bankers for gold. Sitting in the driver's seat, the United States promoted, as had the British, the ideology of the free market and free trade. International institutions were initiated and adapted to sustain a more or less unified imperialist network aimed at enlarging the scope of free trade, keeping reins on the former colonial world, and restraining by war or other means nations seeking to break out of the network. In military terms, American supremacy was maintained with an ever growing stockpile of nuclear bombs and military forces spread around the globe, especially surrounding the Soviet Union. Under these circumstances, the US foreign affairs agenda did not need balance-of-power diplomacy. Instead, it assumed the role of the world's policeman, expecting and when necessary insisting that allied powers and client states follow in lockstep.

US hegemony, like Britain's before it, lasted less than three decades. And similar to Britain's experience, this period was characterised by a major and unusual economic boom. Further, the hegemony withered when the boom petered out. By the late **1960s**, the economic strength of other advanced capitalist nations (notably Germany and Japan) was rapidly catching up with and able to challenge US primacy in foreign trade and finance. Harmony among the leading nations was further disturbed because of the way the United States took advantage of the privileged position of the US dollar. An uncontrolled and enormous volume of dollars flowed into foreign lands to wage wars, operate military bases, finance client states, and invest in foreign branches of multinational corporations, with total disregard for the promise the United States had made to back up the dollars abroad with gold. In effect, the United States in its financial as in its political and military affairs was telling the rest of the world to like it or lump it. But emerging rivals, acting either to demonstrate defiance or merely in self-defence, took up the challenge by converting masses of dollars to gold. With its gold supply rapidly shrinking, the United States eventually chose to renege unilaterally on its promise under the Bretton Woods Agreement, the linchpin of what was to have been a new era in financial harmony.

The end of dollar convertibility in 1971 was a watershed in the hegemonic role of the United States. Watersheds in history are of course rarely marked off precisely. The tension that led to Washington's closing the gold window started earlier in the 1960s. Nor was the downward slide after 1971 a precipitous one. The end of undisputed US hegemony did not mean the complete abolition of US rule, since military preeminence remained (and of course was further enhanced by the later breakup of the Soviet Union): US nuclear stockpiles, widespread military bases, and other military resources remain intact. And although American productive strength is relatively weaker than after the Second World War, it is

nevertheless still very large. But things are definitely not what they used to be. The United States faces challenges from its allies, increasing limits on its financial ability, and the lessening freedom to dictate in foreign affairs. The features of the present economic and political disorder unfolded one after another in the past two decades: a spiralling inflation gripped the world economy in the 1970s; a third-world debt crisis erupted in the 1980s; foreign exchange rates fluctuated wildly; international money flows exploded to feed a growing mountain of debt and speculation.

### *The changing economic environment*

The causal connections among these interrelated changes are not easy to sort out. But underneath it all is a common underlying phenomenon, namely, a generalised slowing down of the economies at the centre of the capitalist world. The pattern of this overall slowdown is shown in Table 1.

*Table 1. Gross Domestic Product per Capita of the Industrialised Nations*

Year	Dollars (at 1980 prices)	Average annual percent change	
1950	3,298	—	
1973	7,396	From 1950 to 1973	3.6%
1989	10,104	From 1973 to 1989	2.0%

Note: The dollar figures are in 1980 international dollars; that is, they are adjusted by World Bank technicians to eliminate exchange rate distortions. The countries included in the above: Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and the United States. The dollar data are simple averages of GDP per capita. The percentages were calculated from the data in the World Bank Report.

Source: World Bank, *World Development Report 1991* (New York: Oxford University Press, 1991), p. 14.

As can be seen in the last column of the table, per capita Gross Domestic Product grew at an unusually high rate during the twenty-three years from 1950 to 1973. This, of course, is only an average, some countries began to slow down in the late 1960s, others later. The overall slowing down, however, was sharp and universal from 1973 to 1989. The change in average growth rate between the two periods – from 3.6 to 2.0 percent a year – amounts to a drop of 45 percent. Put another way, had the leading capitalist nations continued their earlier growth rate into the 70s and 80s, their average per capita product in 1989 would have been \$13,000 (in 1980 dollars), or 30 percent higher than it actually was. We are of course talking about goods and **services** produced, not the income that workers and others receive. Still, the sizable decline in growth is a measure of lost potential of jobs as well as goods and services which, in addition to the.

wastage of war and armaments, are resources that under other circumstances could have been made available for socially useful purposes: homes, welfare, and environmental protection. In essence, what the significant decline in growth rates reveals is that the advanced capitalist world has been running out of steam. The special factors that stimulated a long wave of rapid growth in the 50s and 60s have lost much of their effectiveness, while new stimuli – e.g., computer and communication innovations – have proven to be insufficient to bring about full utilisation of available resources or to regain past growth rates. In the final analysis, the slowdown portrayed in Table 1 reflects a narrowing of profitable opportunities for capitalist investment.

This is demonstrated even more forcefully in Table 2, where we show the rates of change in industrial production over three decades in six leading industrialised nations. The information in Table 2 is in many ways more meaningful than the growth rates presented in Table 1. Gross domestic product is a catchall of diverse activities that is hard to measure reliably. The meaning of industrial production, on the other hand, is clear enough, its measurement has fewer pitfalls, and it is a key source of the surplus that could be available for the benefit of the rest of the economy. Here, too, we see that differences between countries can sometimes be startlingly large: note especially Japan's almost 16 percent average annual growth between 1960 and 1970 as compared with those of other countries. Nevertheless, except for the 1980s pickup in the United Kingdom after a serious drop in the 1970s, there is a marked consistency: *the growth of industrial production slows down from decade to decade* – in the relatively strong as well as in the relatively weak nations. It may be argued that the reason for this pattern is the severe recessions suffered in the early 1970s and 1980s. Actually, the direction of causation runs the other way. Deeper recessions are the product and not cause of weakness; they are indeed a distinguishing feature of stagnating economies.

**Table 2. Industrial Production: Average Annual Percent Increase**

	1960-70	1970-80	1980-90(a)
United States	4.9%	3.3%	2.6%
Japan	15.9	4.1	3.9
West Germany	5.2	2.3	1.8
France	6.0	3.0	1.0
Italy	7.3	3.3	1.3
United Kingdom	2.9	1.1	1.8

a) Except for the United States, the production data for 1990 are based on the first half of that year.

Source: Calculated from indexes in the *Economic Report of the President, 1986* and *Economic Report of the President, 1991*

The slowing down, which has now lasted for at least two decades, spurred capital to seek and create new profit opportunities. One consequence has been an upsurge of protectionism and the move toward bilateral agreements, such as the Canada–US and Mexico–US treaties, and long-range thinking in Washington about extending such arrangements to all of Latin America. No doubt for similar reasons, the continuing economic unification of Western Europe has met so much support in business circles there as well as concern by business elsewhere. Meanwhile, although lip service is often paid to the principle of free trade, ingenious ways are sought to create import barriers. Thus, the 1988 annual report of the Bank for International Settlements observed that 'so-called "grey-area" measures comprising voluntary export restraints, market-sharing arrangements and other non-tariff barriers designed to circumvent GATT rules continued to proliferate, bringing to an estimated 50 percent the share of world merchandise trade that is in effect "managed" in one way or another<sup>7</sup>. So much for the freedom of markets and the spirit of cooperation presumably developing among ruling classes of different nations in consonance with higher levels of globalisation.

### *The rising tide of foreign direct investment*

As a matter of fact, it would be proper to conclude that one key measure of globalisation – the speeded-up flow of direct investment from one country to another – is itself a reaction to the stagnation described above. Capital needs no extra-special stimulus to seek out profit opportunities, and the export of capital has been a tool for growth over the ages. Still, any slowing down of economic growth intensifies the competitive drive in foreign as well as domestic markets. It should therefore come as no surprise to learn that there has been an unusually great leap in foreign investment in the 1980s. *The Economist* (December 22, 1990) highlighted what was happening: 'In the last three years of the 1980s, the flow of direct foreign investment measured in 1980 dollars was more than \$100 billion a year, ten times as much as it had been in the first three years of the 1970s (again in 1980 dollars)'. The comparison made in a recent United Nations document (UN Centre on Transnational Corporations, *World Investment Report 1991*), with reference to the last seven years of the 1980s decade, illuminates the same point. Thus, between 1983 and 1989, the outflows of direct investment to other countries increased almost 29 percent a year, whereas world exports rose much more slowly at about 9 percent a year, and world domestic product even less.

Although the upsurge of foreign investment after the recession of the early 1980s was remarkably strong, its growing importance is not new. In fact, capital exports have helped shape the evolving global economy ever since the end of the Second World War. In the early postwar years the vanquished nations, of course, were not in the picture. They had too much

to do on the domestic front and in any event lacked resources to send abroad. Except for such former large capital exporters as the United Kingdom and the Netherlands which could reinvest earnings from previous investments, other countries, also needing to get their postwar houses in order, were slow in getting back in the game. It was the vigorous expansion of the US multinationals in the 1950s, part and parcel of US's hegemonic role at the time, that led the way to the new stage of **globalisation**. By doing so, they created an environment in which giant corporations of all nations, driven by motives of self-defence as well as by their eagerness for new accumulation opportunities, had to turn multinational and widen their international base. By the end of the 1950s, foreign assets of US firms accounted for half of the world's direct foreign investment, comparable to the share held by Great Britain before the First World War. But when capital export became an important way of life for businesses of other lands, the relative status of the United States dropped. Table 3 tells the story. There we see the percentage distribution of foreign assets held by leading nations in each of the three years. Note that the data report only relative positions. The foreign holdings of each one of these countries kept on expanding throughout the period. But some increased their assets faster than others, and therefore their percentages rose. Thus, even though there was no lessening of interest by US capital in continuing to expand its

*Table 3. Where Direct Foreign Investment Came From*

Country of origin	1960	1973	1989
	— percent of total—		
United States	47.1	48.0	28.3
Canada	3.7	3.7	4.8
Europe	45.2	39.0	50.2
United Kingdom	18.3	13.0	16.7
Germany	1.2	5.6	9.1
Italy	1.6	1.5	3.8
France	6.1	4.2	5.3
Netherlands	10.3	7.5	6.1
Other Europe	7.7	7.2	9.3
Japan	0.7	4.9	11.5
All other	3.2	4.4	5.2
Total	100.0	100.0	100.0

Note: Here as in other tables in this article details may not add up to the totals because of rounding.

Source: International Trade Administration, US Department of Commerce. For 1960 and 1973 data, *Direct Investment Update: Trends in International Direct Investment*, Staff Report, September 1989; for 1989 data, *Trends in International Direct Investment*, Staff Paper No. 91-5, July 1991

overseas investments, the US share of the world's foreign direct assets declined from 47 percent in 1960 to 28 percent in 1989. What is especially significant is the speed with which Japan and Germany have been getting into the act. The percentage of the two combined went from 1.9 percent in 1960 to 20.6 percent in 1989 – or a rise of close to 19 percentage points.

The latest widespread and persistent rise in export of capital, it should be understood, was overwhelmingly due to an increased flow from industrialised nations to each other – between and among Western Europe, Japan and the United States. The urge to get established in Europe before the scheduled 1992 advanced unification of the European Economic Community has no doubt acted as an added spur in the last few years. But that is only part of the story, for contrary to popular impressions, a much greater share of foreign investment has always gone to industrialised rather than third-world nations.

The first wave of foreign investment after the Second World War concentrated on raw materials and other primary products. Apart from investments of this kind, capital flowed to the third world for manufacturing enterprises to profit from the exceptionally low wages and to take advantage of the demand generated by the local rich and middle classes. But the capital absorption power of many of these countries is strictly limited compared to that of the industrialised countries, where markets are far more opulent and diversified. The normal export route to these markets, however, is frequently blocked by the existence of local competitors enjoying special advantages: giant corporations with established trade structures, political and financial ties, and protective import barriers. These are among the major incentives for foreign multinationals to establish affiliates in such areas, and they have been continuously increased by pressures stemming from ongoing domestic stagnation and the speeding-up of the trend toward the creation of trade and currency blocs. The result

*Table 4. Where Accumulated Foreign Direct Investment is Located*

	1967	1973	1980	1989
	— percent <b>distribution</b> —			
Developed Countries	69.4	73.9	78.0	80.8
Underdeveloped countries	<u>30.6</u>	<u>26.1</u>	<u>22.0</u>	<u>19.2</u>
Total	100.0	100.0	100.0	100.0

**Source:** US Department of Commerce, International Trade Administration, *Trends in International Direct Investment*, Staff Paper No. 91-5, July 1991

of these changes shows up clearly in Table 4. Investment from abroad continues to flow to both areas, but the emphasis keeps on shifting. The accumulation of direct foreign investment located in the third world declined from 31 to 19 percent between 1967 and 1989, whereas cross investment among the advanced capitalist nations went up from 69 to 81 percent.

*The changing composition of direct foreign investment*

In discussions of foreign investment, attention has traditionally been focused on resource extraction and manufacturing, and this tends to obscure the fact that there has been an important shift to investment in services. New forms of economic interpenetration have occurred at various strategic levels – in finance and insurance, communications, advertising and the media, etc. Not all of this shows up on statistical summaries; sufficient details are not available as yet to get the full picture. But we have two tables – one on Japan and the other on the United States – which reveal aspects of this development.

The Japanese Ministry of Finance provides data on foreign investment, shown in Table 5. The data only start with 1951, but that has little bearing on comparability with data for other countries since Japanese foreign investment before that date was insignificant. Problems about comparability do arise because the statistics do not include assets obtained by reinvesting profits made abroad. On this ground and because of variations in industrial classification, the data for Japan and for the United States which will follow are not strictly comparable; but these differences, in our opinion, should not interfere with our present purpose, which is to get a general view of the increasing diversity of the globalisation process. Japanese firms did indeed invest beyond their borders in a wide assortment of manufacturing enterprises – mainly in electrical equipment, transportation equipment, machinery, chemicals, and steel. Nevertheless, their total assets in this area account for less than 30 percent of all overseas holdings. On the other hand, the amount invested in finance, insurance, and real estate exceeds that in manufactures. And if we add the percentage for commerce, we reach a total that is not far from half of the accumulated

*Table 5. Japanese Direct Foreign Investment By Industry*

	Total invested from 1951 to 1988	
	Billions of dollars	Percent of total
Manufacturing	49.8	26.7
Mining	13.9	7.5
Commerce	20.0	10.7
Finance and insurance	41.9	22.5
Real estate	20.6	11.1
All others	<u>40.2</u>	<u>21.6</u>
	186.4	100.0

Source: Japan External Trade Organisation, *Nippon 1990 Business Facts and Figures* (Tokyo, 1990)

Japanese **investment** overseas. This, we believe, is not an aberrational or unusual situation, but one that complements the slowdown of productive investment.

A similar picture appears when one examines the data for US foreign investment. There is an added feature to the information available for the United States, since the data in Table 6 enable us to observe a trend covering most of the **post-Second World War** period. What is significant is not only the changes but the timing of their occurrence. The fluctuations needed to be handled with care, for some of them are primarily statistical phenomena. Thus, the decline of investment in oil, due to the OPEC nationalisations of 1973–75, and the buying up of several countries of foreign-owned public utilities automatically affect the percentages in other areas. But this does not alter the fact that total US direct foreign investment grew at a rapid rate during the four decades covered in the chart. Hence, even when the figure for manufacturing remains at 40 percent between 1966 and 1990, the absolute amount sent abroad for such activity advanced significantly during those years. Furthermore, in many areas US firms as well as those of other countries extended their interests and profit-making in such fields as manufacturing, mining, and oil extraction without increasing their investments. This was done by licensing technology, contracting for research and development (often, as in oil, a major device for control), etc.

**Table 6. US Direct Foreign Investment By Industry**

	(percent distribution)		
	1950	1966	1990
Manufacturing	32	40	40
Petroleum	29	27	14
Wholesale Trade	5	7	10
Banking	(a)	(a)	5
Finance and Insurance	4	9	24
All other (b)	<u>30</u>	<u>17</u>	<u>7</u>
Total	100	100	100

**Notes:** (a) included in all other. (b) 'All other' includes mining, transportation, public utilities, retail trade, agriculture, and a variety of services. The importance of this sector decreased as US capital sold off public utility firms in Latin America.

**Source:** *Survey of Current Business*, February 1981 and June 1991.

Where attention needs to be focused in Table 6 is on the lines for banking and finance and insurance. There we observe an extraordinarily sharp rise after 1966, with investment in banking, finance, and insurance, reaching almost 30 percent of the total direct investment overseas in 1990. Even more striking is the fact that in 1990, as shown in Table 7, the amount

invested in finance, insurance, and banking in the underdeveloped countries was \$43 billion, almost one-third higher than in manufacturing. And it is equally noteworthy that US investment in the third world is more heavily weighted toward banking, finance, and insurance (**40 percent**) than it is in the industrialised countries (25 percent)! There are, however, two provisos that need to be considered in judging this comparison. First, the competitive struggle of the corporate giants is hottest in the developed world, which leads to a greater concentration there on manufacturing relative to finance. And second, a few third-world countries are convenient tax havens and hence are particularly attractive to financial capital. But even taking account of these factors, the emphasis on investment in financial institutions in the third world is impressive. It affords a clear indication of how far financial globalisation has in general spread and how deeply it has penetrated the daily economic life of the periphery.

*Table 7. US Direct Foreign Investment in 1990*

	Total	Developed countries	Under- developed countries
	— \$ billions—		
<i>All industries</i> (a)	<u>419.4</u>	<u>312.2</u>	<u>107.2</u>
Manufacturing	168.2	134.7	33.6
Banking	21.4	11.0	10.4
Finance and Insurance	100.5	67.9	32.6
Petroleum	47.2	41.6	15.6
Wholesale trade	41.4	33.9	7.5
All others (b)	30.7	23.2	7.5
	— percent of total—		
<i>All industries</i>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Manufacturing	40.3	43.1	31.3
Banking	5.1	3.5	9.7
Finance and Insurance	23.7	21.7	30.4
Petroleum	13.7	13.3	14.6
Wholesale trade	9.9	10.9	7.0
All others (b)	7.3	7.4	7.0

(a) Does not include Netherlands Antilles and \$3.6 billion of investment which cannot be properly distributed by country.

(b) Includes services, public utilities, transportation, construction, etc.

Source: *Survey of Current Business*, June 1991.

## II

*The globalisation of finance*

The internationalisation of finance capital is a notably distinguishing attribute of the modern globalisation process. It is true that between the last quarter of the nineteenth century and the start of the First World War, European money markets, and most especially the City of London, experienced an unprecedented degree of internationalisation. But looking backward, one can see that international financial markets were then still only in their infancy. By the **1980s**, under the impact of changing economic and political pressures, and assisted by new electronic and communication technology, a totally new stage of **global** finance had emerged – one with 'the freest-flowing and most sophisticated (that is, complicated) financial markets the world has ever known – Currencies, commodities, government and corporate bonds: all are now issued and traded around the clock and around the **world**'.<sup>2</sup>

An outstanding development of this most recent stage is the utterly new role of bank lending across national borders. In the past, such activity over and above 'normal' international business, was directed toward control and influence over other nations or to preparing for and conducting war. But taken as a whole, cross-country banking was a minor part of the world economy. For example, in the mid-1960s the volume of international banking equalled about one percent of the gross domestic product of the combined market economies of the world. But that percentage increased rapidly during the 1970s and 1980s. By the **mid-1980s**, the volume of international banking activity reached 20 percent of the GDP of the world's market economies. The comparison with world trade is even more striking. A normal function of international banking is to facilitate world trade, and as late as the mid-60s the volume of banking activity across national borders amounted to around 10 percent of the **volume** of world trade of the market economies. During the last two decades, however, the growth of cross-border banking swelled out of all proportion to the expansion of international trade: by the **mid-1980s**, the volume of **cross-border** lending by banks actually exceeded the volume of international trade of all the market economies **combined**.<sup>3</sup> Transcending its traditional role, global banking became the centre of a self-generating financial boom, spreading in ever-wider circles during the 1970s and 1980s. Not surprisingly, this ballooning of international banking was tied in with a host of new methods of financial speculation and manipulation.

At first sight it may seem paradoxical that the global financial boom coincided with a general economic slowdown and growing instability. But there is logic behind this paradox: actually the explosion of debt and speculation became an increasingly important prop for the faltering economies of the West. Government budgetary deficits, along with an

upsurge of business and consumer debt shored up demand and helped sustain the production of goods and services. And as other sources of stimulus weakened, debt became an increasingly important part of the economy. Meanwhile, the financial operators, scurrying from one country to another for funds, became increasingly addicted to speculation.

Money markets grew in size and diversity to accommodate the skyrocketing demand for debt. New financial instruments were introduced which widened the base of the credit system and at the same time opened wide the gates to speculation. For example, financial futures markets (where wagers are made on what interest rates will be at a later date) emerged in the early 1970s, beginning in the United States, spreading next to London and Sydney, and then to Tokyo, Paris, and Frankfurt. Although only an infant in swaddling clothes at the start of the 1970s, the financial futures market is now one of the giants of international finance. At the start of 1990, open interest positions (the value of the contracts traded on these markets) totalled \$1.2 trillion worldwide. An even faster increase took place in what are known as interest and currency swaps. This financial novelty consists of exchanges between two parties who possess interest-bearing securities or future-currency contracts, the purpose being to hedge **and/or** seek additional profit. Explaining the mechanics of these manipulations would take us too far afield: the reason we mention them at all is simply to illustrate how rapidly new instruments balloon in international financial markets. **Swaps** were almost unknown before 1980; by 1991 there were \$2.5 trillion worth of such contracts outstanding in global financial markets. These data are from a Morgan Guaranty Trust Company publication, which also contains the following relevant observation:

**The [economic and financial instability of the 1970s] engendered government deficits and external imbalances that required financing on a scale unprecedented in peacetime and that exceeded the capacity or willingness of the traditionally fragmented financial markets to cover. These financing needs joined with advances in technology and communications to spawn a host of innovations, ranging from securitisation in place of intermediated bank credit to new derivative instruments, including swaps. Taken together, these financial innovations have helped overwhelm traditional and regulatory segmentation of national markets and thereby have contributed much to the effective integration of financial markets globally.<sup>4</sup>**

In sum, on a national as well as on an international scale, the financial sectors of the advanced capitalist countries took on a life of their own. They prospered from the expansion and the accelerated circulation of the economic surplus. The expansion was achieved artificially by inflation of commodity and service prices and of asset values. And that in turn enforced a redistribution of wealth from the lower-income classes to the wealthy, in particular the elite of world finance.

For the financial boom to continue on a global scale, a sufficient supply of internationally acceptable money was of course necessary. Where did it come from? The answer is that in the beginning it came from the flood of

US dollars poured out on the world by Washington, American multinationals, and US financial institutions during the period of unchallenged US hegemony when the dollar enjoyed the good-as-gold status conferred on it by the Bretton Woods accords. It might have been thought – in fact many people did think – that when **Nixon** took the dollar off gold in 1971 this cosy (for the United States) arrangement would come to an end. But it didn't. By the time dollar accumulations abroad, especially in the coffers of central banks where they constituted the bulk of reserves underpinning most of the world's currencies, had grown so large that no country could afford to do anything that might threaten the dollar's value. The result was that after 1971, as before, the United States continued to pour out dollars and foreigners continued to accept them. Between 1969 and 1977 the number of dollars owned outside the United States multiplied by a factor of 4.5 and has continued to grow ever since.

The collapse of Bretton Woods thus set the core countries of the capitalist world economy on a road that soon led to an inflationary burst of liquidity and a different kind of havoc. It is true that for a short period after the end of dollar convertibility, the top-dog countries sought to find a new route to stable foreign exchange rates, which were seen as essential to the normalisation of the world economy. But a meaningful agreement was hard to come by, given the conflicting interests of the powers and a reluctance to submit to continued US domination. By March of 1973 they gave in to the inevitable and moved to floating exchange rates, thereby opening the floodgate to rampant speculation in foreign exchange markets. The blame for the disorder of the **1970s** and the accompanying inflationary spiral is generally attributed to OPEC, but in reality the causal connection runs in the opposite direction: the large rise in the price of oil can more reasonably be traced to the instability in international economic relations and the inflationary pressures that emerged in the aftermath of the end of dollar convertibility. Professor Robert Triffin's comments on this period are particularly relevant:

**World import and export prices, measured in dollars, rose by less than one percent a year in the 1960s, but by more than six percent a year from 1970 through 1972, and by as much as 30 percent in the last 12 months before the explosion of oil prices in the fall of 1973. This was not unconnected, to say the least, with the enormous and mounting US deficits abroad which flooded the world monetary system, doubling world reserves from the end of 1969 to the end of 1972. . . i.e., increasing them by as much in this short span of three years as in all previous centuries in recorded history.<sup>5</sup>**

The disarray has continued to this day, with new twists. The price inflation of the 70s and early 80s shifted from goods and services to the value of assets (real estate, art objects, stocks, financial instruments). This was part and parcel of the growing importance of the financial superstructure throughout the advanced capitalist world:

**[World trade in goods and services] amount to around \$2.5 trillion to \$3 trillion a year. But the London Eurodollar market, in which the world's financial institutions borrow and lend**

to each other, turns over \$300 billion each working day, or \$75 trillion a year, a volume at least 25 times that of world trade.

In addition, there are foreign exchange transactions in the world's main money centres, in which one currency is traded against another. These run around \$150 billion a day, or about \$35 trillion a year, 12 times the worldwide trade in goods and services.

Of course, many of these Eurodollars, yen, and Swiss francs are just being moved from one pocket to another and may be counted more than once. A massive discrepancy still exists, and there is only one conclusion: capital movements unconnected to trade – and indeed largely independent of it – greatly exceed trade ~~finance~~.

So much for the sheer magnitude of the burgeoning financial superstructure. Hardly less impressive is its instability, a concept easier to understand than to measure. Among many possible indicators, perhaps the most comprehensive is the record of exchange-rate fluctuations among the world's major currencies. The ideal of exchange-rate stability remains a subject of discussion among theorists who dream of a **day** when governments will cooperate voluntarily in harmonious fashion. But the reality is one of extreme and unrelenting volatility. Charts I and II are vivid illustrations of this point. From 1970 to 1978 the number of marks needed to buy one dollar fell 40 percent. As can be seen in Chart I, the roller coaster continues to this day. The **mark/dollar** ratio fell another 15 percent from 1978 to 1980 and then rose back to its old high by the first quarter of 1985. Between then and the first quarter of 1987 it began a major slide – this time falling by 50 percent, and has continued to move up and down since then. The rate of exchange between the yen and the dollar (Chart II) showed even more volatility between 1978 and 1985, had the same fast 50 percent fall between the first quarter of 1985 and early 1988, and has followed the yo-yo path ever since.

These charts clearly depict a financial world in disarray, surely not an orderly, let alone integrated, global system. According to the economics textbooks, reflecting today's worldwide ruling ideology, free markets are self-adjusting. Fluctuations in exchange rates and international capital flows are supposed to be caused primarily, if not exclusively, by alterations in the balance of imports and exports. When imbalances are large and more than of very short duration, they are presumably automatically brought into balance by mild self-corrective changes in exchange rates **and/** or capital flows. Instead, what we have these days are enormous capital movements that receive little guidance from Adam Smith's invisible hand. Speculation on a grand scale (trading in currencies are a major source of profits for many of the world's largest banks); government interventions in currency markets in an (often vain) attempt to put a lid on extreme fluctuations; and changing domestic interest rates in competition for money capital – these are among the leading factors that contribute to the substantial swings in capital movements between countries and the volatility of exchange rates.

Chart I. German Marks per US Dollar      Marks per dollar

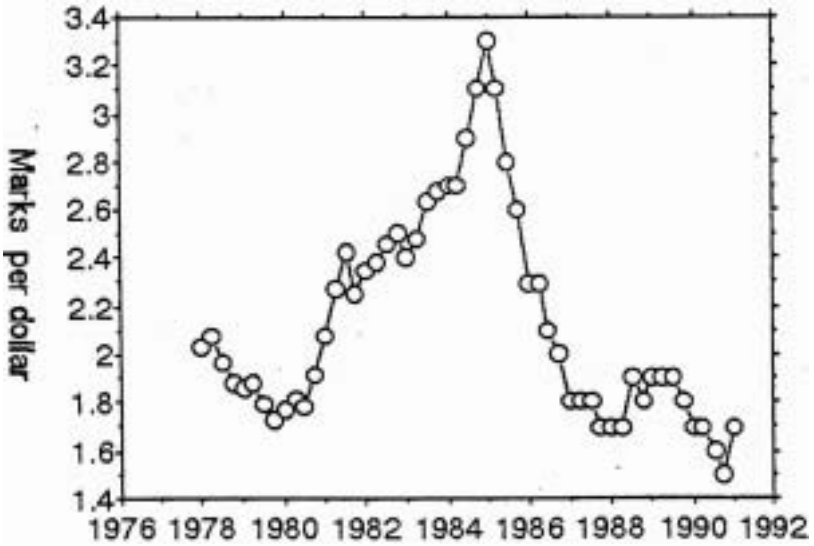
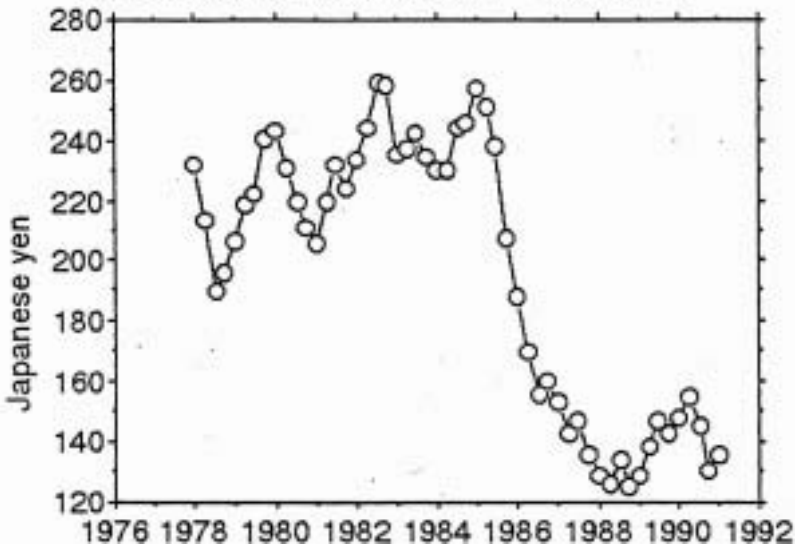


Chart II. Japanese Yen per US Dollar      Japanese Yen



The disorder that developed in step with the decline of US hegemony is also reflected in the rising role of the German mark and Japanese yen as international currencies. As discussed earlier, a critical aspect of America's **rule** in the first couple of decades after the Second World War was the role of the dollar as the key international currency. What has been happening on that score shows up in the changes of official holdings of foreign exchange, as shown in Table 8. Each country needs to keep reserves either in gold or internationally accepted foreign currencies in order to settle imbalances generated by trade and other international transactions. In essence, the data in this table reveal a drift of the world economy to a multicurrency monetary system. Although the US dollar so far remains the major reserve currency for international transactions, its prominence has been dropping rather sharply. As late as 1975, the member countries of the IMF still kept almost 80 percent of their foreign exchange reserves in US dollars. By 1989, that percent had dropped to 60 percent. As was shown above with respect to the shifts in foreign direct investment, the decline in the dollar as a reserve currency was matched by the growing importance of Germany and Japan.

**Table 8. Share of National Currencies in Holdings of Foreign Exchange by Central Banks or Treasury Departments**

	1975	1983	1989
	— percent <b>distribution</b> —		
US Dollar	79.4	71.4	60.2
Pound sterling	3.9	2.5	2.7
German mark	6.3	11.8	19.3
Japanese yen	0.5	5.1	7.9
All other	<u>9.9</u>	<u>9.3</u>	<u>9.9</u>
Total	100.0	100.0	100.0

**Source: International Monetary Fund, Annual Report, various issues.**

The volume of Germany's merchandise exports is now roughly equal to that of the United States. In addition, Germany has been assuming a leading role in the European Monetary System. An important measure of a currency's international role is its use in exchange-market intervention by central banks. In this respect, the mark has been rapidly growing in influence. Thus, in 1979–82, US dollars accounted for approximately 72 percent of the money used by central banks to intervene in the European Monetary System, while 24 percent of the interventions were then made with German marks. In 1986–87, on the other hand, the dollar role fell to 26 percent, while that of the mark rose to 59 percent.<sup>1</sup>

The information in Table 8 also reflects the internationalisation of the yen, its use as a reserve currency rising from one-half of one percent in 1975

to 8 percent in 1989. The rise is noteworthy, but hardly reflects Japan's growth as a world banker. Japan is in fact still playing a modest role compared to the United States and Germany. Germany's relative importance, as noted, has been enhanced by the lead it has taken in the European Community.

In Asia no formal alignment of countries comparable to the European Community has as yet emerged, but it is significant that the yen's role as a reserve currency is much higher there than on the world scale (18 percent of official holdings of reserve currencies by selected Asian countries). 'The yen's emergence as an essential component of the international monetary system,' states a recent study, 'is directly related to its role as a key currency within Asia!'

The drift toward the polarisation of three key currencies coincides with tendencies toward the emergence of clusters of nations in which each one of the three major capitalist powers is especially prominent. But before entering on that topic we need to examine where and how the third world fits into the global system.

### III

#### *The third world in the global system*

Despite the striking transformations in the world capitalist system since the end of the Second World War, two major distinguishing features of the third world did not change in general, and in a fundamental sense, the chains of dependency binding the periphery to the centre remain. Secondly, the gap between the periphery and the centre, as throughout the history of capitalism, keeps on widening. The evidence for the most recent period is presented in Table 9, where the gross domestic product (GDP) per capita of the third world is compared with that of the advanced capitalist countries. What stands out clearly is that with only one exception the gap between the two keeps on getting wider—in prosperous as well as in stagnating periods. As shown in the first line of the table, in 1960 the per capita GDP of the underdeveloped countries combined was only 8.7 percent of that of the industrialised nations. But even that abysmally small percentage fell during the prosperous 1960s (to 7.4 percent), and then still further (to 6.1 percent) during the stagnating years from 1970 to 1987 (the latest year for which complete data are available at the time of writing).

This trend was true not only for the third world as a whole, but for practically every region, in the better-off as well as the poorer areas. Although the trend is clearly pronounced for the whole period shown in the table, there were some departures from the trend in interim years for particular countries, brought about by short-term changes in terms of trade and most dramatically by the OPEC price boosts in the 1970s. But,

except for the Middle East, the improvement in the relative standing of other oil producers was of brief duration. Before long they were back in the widening-gap rut along with the non-oil producers. The one exception, as noted above, was the Middle Eastern oil producers whose relative position improved significantly between 1970 and 1987.

**Table 9. Gap Between Developed and Underdeveloped Market Economies**

Gross Domestic Product Per Capita:			
Underdeveloped Countries as a Percent of Developed Countries			
	1960	1970	1987
All Underdeveloped Market Economies	<u>8.7%</u>	<u>7.4%</u>	<u>6.1%</u>
Africa (a)	6.9	5.6	3.5
Latin America (b)	<u>22.2</u>	<u>17.9</u>	<u>12.5</u>
Oil Producers	<u>31.3</u>	<u>26.3</u>	<u>12.0</u>
Others	20.0	15.3	12.7
Asia-Middle East	<u>16.7</u>	<u>14.9</u>	<u>19.6</u>
Oil Producers	18.9	16.7	27.8
Others	15.2	13.5	11.8
Asia-East and Southeast	5.3	4.5	3.8

(a) South Africa not included.

(b) Includes Caribbean region.

Source: Calculated from (a) 1960 data-United Nations, *Yearbook of National Account Statistics, 1974*, Vol. III, and (b) United Nations, *National Accounts Statistics: Analysis of Main Aggregates, 1987*.

The story for the rest of the third world is clear enough. During the decades of intensified globalisation and the increasing dominance of market economies, the per capita GDP of Africa (other than South Africa) as a percent of the per capita GDP of the core countries was half of what it had been in 1960, and the relative standing in 1987 of even the more favoured countries of Latin America was only three-fifths of what it had been in 1960.

An examination of the table shows that the gap did not widen as much in east and southeast Asia as in the other major third-world regions. And the reason for this is the progress made in China. According to the World Bank's *World Development Report 1991*, China, with 40 percent of the region's population, had a per capita growth rate of 5.7 percent between 1965 and 1989, which compares with much lower rates for other large countries in the region, for example, India's 1.8 percent and Pakistan's 2.5 percent. The 'four tigers' (South Korea, Taiwan, Singapore, and Hong Kong) experienced higher annual rates than did China (6 to 7 percent during the same period). But their impact on the last line in Table 9 is minor, because their combined population is less than 3 percent of the entire region.

As the foregoing makes clear, there can be no doubt about the reality of the widening gap between the living standards of the core capitalist countries and those of the underdeveloped countries of the periphery. At first sight, however, this may seem strange. After all, the post-Second World War period was, by historical standards, one of rapid and sustained capitalist expansion, and it was characterised by a new worldwide awareness of the deeply rooted disparities which existed between the rich countries and what came, precisely in this period, to be called the third world. The colonial peoples had been awakened by the Russian and Chinese revolutions and were struggling for their own freedom and a chance to develop their economies. The Communist countries and their supporters elsewhere were singing siren songs, and the imperialists were responding with their own promises based on the supposedly scientific discoveries of a new discipline called 'development economics'. The governments of the industrialised countries set ambitious targets for foreign aid and joined with their less fortunate third-world 'partners' to push through the United Nations resolutions and programmes looking to the elimination of evils inherited from an unenlightened past. While all this was going on, was it really possible that the gap between the rich and poor countries was widening? And if that was indeed so, how could it be explained?

Well, it was so, and the explanation, while not simple, is certainly no mystery. The truth is that a system built on inequality in the command of human and natural resources works in many ways not only to reproduce itself but to increase the extent of the in-built inequality. The mechanisms of this process vary in different communities ranging from the local through the national to the global. At a global level, the most important can be encompassed under three headings: foreign investment, money lending, and international trade. These are matters of urgent concern to governments, central banks, and various international agencies (IMF, World Bank, UN), with the result that comprehensive statistics are gathered and published which enable us to observe and quantify some of the critically important aspects of the relationship that exists between the core and the periphery. In what follows, we focus on the first two. To use a favourite expression of the late Paul **Baran**, that is where the dog is buried in this age of burgeoning globalisation.

A bare outline of the main facts to which we want to call attention is presented in Table 10. Balance-of-payment statistics, on which this table is based, summarise a country's foreign transactions. They are generally constructed in two parts. The first is called the balance on current accounts. This covers the day-to-day economic transactions between nations – primarily imports and exports of goods and services, transfer of money between individuals (for example workers with jobs in foreign lands sending money back to the family), and payments connected with **invest-**

ments (such as profits, royalties, and interest on borrowed money). The second part of the balance of payments deals with capital transactions – investments and loans.

Now in the normal course of events, when a country is faced with a deficit in its current account (when what it owes for goods and services bought abroad exceeds money earned there), it has to come up with funds to settle the balance. Few can do what the United States is able to do, which is to pay with their own currency. (Eventually, a persistent **current-account** deficit can create serious trouble even for a country as rich as the United States. If the rest of the world resists the acceptance of more US dollars, the likelihood is that the international value of the dollar will fall precipitously and create havoc in financial markets.) If those in the periphery do not have enough gold or foreign currency in reserve, they have to get hold of 'hard' money – in other words, universally accepted currency. For that reason, a deficit country can only cope with its deficit by borrowing abroad or attracting foreign capital.

Let us now look at Table 10, which presents a combined current-account balance of payments for third world countries other than South Korea, Taiwan, Singapore, Hong Kong, and major oil producers. The first line of the table summarises the balance of all day-to-day payments to and receipts from abroad – except for payments to foreign corporations and banks (including the World Bank and IMF). Note that in each one of the last five years, the balance was positive, more was received than was paid

*Table 10. Selected Underdeveloped Countries: Current-Account Balance of Payments (a)*

	1986	1987	1988	1989	1990
	— billions of dollars —				
Balance of payments on all current transactions except net payments abroad of interest, dividends, and fees to foreigners	+5.8	+14.9	+16.8	+12.4	+18.9
Net payments of interest, dividends and fees to foreigners	-41.0	-41.8	-46.1	-49.5	-50.3
Current-account balance of payments	-35.2	-26.9	-29.3	-37.1	-31.4

(a) Total of all underdeveloped countries except South Korea, Taiwan, Hong Kong, Singapore and countries whose exports of fuel are more than 50 percent of all their exports.

Source: Calculated from data in Bank for International Settlements, *61st Annual Report* (Basle, 10 June 1991)

out. Now let us move to line 2, which records the profits, royalties, and fees sent to the home offices of multinational corporations, interest on debt to foreign bankers, bondholders, the IMF, and the World Bank. There we find not just negative numbers (money flowing out) but ones that far exceed the surpluses shown in line 1.

If there aren't enough foreign-exchangereserves in the treasury to cover shortfalls, the affected nations must borrow still more or attract additional foreign investment. This in turn will make the negative numbers in line 2 still larger in subsequent years. If this continues, a critical point is eventually reached when the deficit burdens become unmanageable, as occurred in the 1980s debt crisis. The **IMF** and the World Bank then come forward as rescuers – rescuers not only of the borrowing countries but also of the lending banks whose profits **and** stability **depend** on their loans continuing to be serviced. As the crisis evolves, international lenders become more restrictive in their lending and more heavy-handed in the restraints imposed on the borrowers. **Loans** are made **on** condition that borrowers adopt policies aimed at forcing larger positive balances between exports and imports (line 1). What these policies mean in practice is usually fewer social benefits, a squeeze on wages, and a drastic reduction of imports. But since a large proportion of imports is needed for domestic **production**, the import cutback affects largely goods needed to meet the people's basic needs. The result of these restraints, compounded by sharp declines in prices of many primary products exported by the third world, is a severe decline of income during the 1980s in **Latin America** and Africa, where some of the heaviest borrowing from abroad took place. In the case of Latin American countries, the *physical* volume of exports increased substantially but the *money* received did not because of the drop in prices. At the same time, the cost of imports increased – the terms of trade (ratio of export prices to import prices) went against them just when they desperately needed improvement. For the third world as a whole the terms of trade fell 16 percent between 1980 and 1988.

To cope with the crisis, private and public lenders continue lending to indebted countries just to make it possible for the latter to continue servicing past debt. But the infernal logic of debt servitude has its way, as shown in Table 11. The data, as reported in the 1990 *Annual Report of the World Bank*, summarise the debt situation in the 111 countries that report to the World Bank. The first column shows the actual amounts of long-term debt disbursed each year in the 1980s by private and public lenders. Although lending continued, in order to prevent a wholesale collapse of banks in the main capital markets, the emphasis turned more and more to disciplining the borrowers, chiefly through the agency of the IMF. As the amount of new money lent declined from year to year (column 1), any benefits of the new funds to the borrowers kept on diminishing. The reason is the fast growth of the funds needed each year to pay principal and

interest on the accumulated debt (column 2). The key column is, of course, the fifth. As the new debt issued went down and the debt servicing went up, by 1984 and thereafter more money went out of the periphery every year than came in.

**Table 11. Long Term Debt: Amount Issued to Borrowers vs. Amount Repaid (\$ billions)**

Year	New Debt issued	Repayments for Debt Service			Net Received by Borrowers [col. 1-col. 2]
		Total	Principal	Interest	
	(1)	(2)	(3)	(4)	(5)
1980	106.4	75.8	43.7	32.1	30.6
1981	123.4	86.9	46.2	40.7	36.5
1982	116.4	96.2	48.3	57.9	20.2
1983	95.3	90.8	44.0	46.8	4.5
1984	90.8	100.7	47.8	52.9	-9.9
1985	87.6	107.3	53.1	54.2	-19.7
1986	88.4	112.1	59.7	52.4	-23.7
1987	88.3	122.5	68.9	53.6	-34.2
1988	95.7	133.3	72.9	60.4	-37.6
1989	86.9	129.8	70.3	59.5	-42.9

**Note:** The data are for 111 indebted countries in the World Bank's reporting system. Column 1 represents the loans made each year by public and private lenders to the reporting countries. Column 2 presents the total payments by these borrowers for interest and repayment of principal on their total debt accumulation.

**Source:** *The World Bank Annual Report 1990*, p. 32.

With debt as with foreign investment by the multinationals, while the foreign funds might be used for developing productive resources, the net result, in the short as in the long run, is (1) a transfer of economic surplus from the underdeveloped countries to the centres of capital, and (2) an entrenchment of dependent ties from the weaker to the stronger nations. Thus the third world as a whole remains what it has been throughout the history of capitalism, the locus for capital accumulation and profit-making by giant corporations and financial institutions of the advanced capitalist nations.

### ***The export solution***

According to the conventional wisdom, there is a way out for the third world if only its economies were further oriented to exports – in other words, become further tied to the global economy. But in reality, as noted above, international trade is one of the main mechanisms for perpetuating

the gap between the core and periphery. Moreover, the globalisation process has resulted in even greater dominance of foreign trade by the giant multinationals. The dominance takes various forms, ranging from the crudest type of exploitation to the 'normal' operations of the free market's invisible hand.

An instructive illustration of the former was recently provided in a World Bank research report, which contained a study of the prices paid by former colonies in Africa for imports of iron and steel products between 1962 and 1987. It turned out that 'for the full 26-year period, the [prices they paid for standard products] always exceeded those of developed market economy countries'. It is estimated that the consequent losses by ex-French colonies in Africa during the period studied 'exceeds the long-term debt of 12 of the former colonies in 1987 and approximately equals the combined debt (\$2.2 billion) of **Burkina Faso**, the Central African Republic, Chad, and Mauritius'. Sales by Britain, Belgium, and Portugal to former African colonies exhibited similar patterns of **overpricing**.<sup>9</sup>

This and other types of unequal exchange have not been alleviated by increased globalisation. Nor has the growth of the multinationals improved traditional areas of third world exports of raw materials. It is true that in the early decades after the Second World War, both the demand for and prices of many raw materials grew substantially. But it has been the other way around since the onset of stagnation in the world economy. A weighted index of commodity prices (other than energy) records a drop of more than 50 percent between the early 1970s and 1990. At the same time the demand for many commodities has also been declining, because of improved efficiency in the manufacturing process as well as increased use of substitutes (plastics, ceramics, optical fibre). These changes, on top of the customary wide fluctuations in demand and prices, demonstrate once again the unreliability of primary products as a trustworthy source of growth, let alone stability.

The popular answer to this dead end has been to follow in the footsteps of the four 'tigers'. They provide the inspiration and the romance of what might be possible. Usually South Korea is picked as the ideal model for escape from underdevelopment. Echoes of this theme are heard with greater frequency these days also in **Beijing**, Warsaw, and Moscow. The engine of growth and escape from the debt trap, according to this line of reasoning, is to be found in a major expansion of exports of manufactured goods.

Leaving aside what the Korean model has meant for the health and welfare of the Korean people, it is clear that its achievement of an impressively high growth rate was tied in with the ability to produce and find export markets for steel, machinery, autos, and other manufactured products. And, indeed, South Korea's exports of manufactured goods per capita has started to resemble that of the industrialised countries. Even

though its \$1,364 manufactured exports per capita in 1989 is well below that of Germany, France, England, and Japan, it belongs in that league, far removed from the typical third world country. Thus Korea's per capita level of manufactured exports is 100 times larger than India's; 50 times Pakistan's; and over ten times Mexico's and Brazil's, two countries who have looked to export of manufactures as their engine of growth. The question therefore arises, if South Korea did it, why not every other underdeveloped country?

*Table 12. Third World Exports as a Percent of World Exports of Manufactured Goods*

	1966	1982	1986
All underdeveloped countries	11.2%	13.3%	<u>13.8%</u>
Latin America	<u>3.7</u>	<u>3.0</u>	<u>2.9</u>
Brazil	0.9	1.3	1.2
Mexico	0.4	0.3	0.6
Other L.A. countries	2.4	1.3	1.1
Africa	2.4	0.9	0.7
Asia–Middle East	0.3	0.8	0.7
Asia–East and Southeast	<u>4.1</u>	<u>8.4</u>	<u>9.3</u>
Hong Kong	<u>0.7</u>	1.2	1.3
Korea, Republic of	0.1	1.9	2.2
Singapore	0.4	1.1	1.0
Taiwan	0.3	1.9	2.6
Other	0.7	0.2	0.2
Underdeveloped countries, excluding the 4 Asian countries or territories	9.6	7.3	6.8

**Source:** Magnus Blomstrom, *Transnational Corporations and Manufacturing Exports from Developing Countries* (New York: United Nations, 1990), p. 11.

An examination of Table 12 will help to get some perspective for an answer to this question. The data show the share of world exports of manufactured goods sold by the third world. Asia (other than the Middle East) clearly had phenomenal success along these lines – more than doubling its share from 4.1 percent in 1966 to 9.3 in 1986. That obviously was entirely due to the performance by the four 'tigers'. Apart from these four, Mexico and Brazil showed a degree of improvement. But when you look at the picture as a whole, the result is far from impressive. In the twenty years covered by Table 12, the underdeveloped countries' share of the world's exports of manufactured products rose by 2.6 percentage points, from 11.2 percent in 1966 to 13.8 percent in 1986. Why then so

little, in fact insignificant, change in face of the great leap in Asia? The answer shows up in the bottom line. Other than the four countries or territories in Asia, the periphery's share of world trade in manufactures *fell by almost a third between 1966 and 1986*. We would have to go too far afield at this time if we were to examine all the aspects of both the very slow growth of the third world's share of manufactured goods exports and, within the third world, the shift to the Pacific. The overall picture is nonetheless significant in bringing down to earth the idle illusions about the windows of opportunity for the third world in the process of **globalisation**, especially in view of the experience revealed in the above table and considering the extent to which the giant multinational corporations narrow the trade channels for independent rivals. Moreover, competition is bound to intensify, and government-imposed trade barriers to spread, in times of general economic slowdown. Clearly, obstacles do not mean that all doors are tightly shut. There is no reason why here and there some export markets will not be penetrable by some countries. What facts and history show, however, are that degrees of freedom are very much restricted.

The issue of limits to the third world becoming a more or less independent participant in the globalisation process arises in full force in considering the question raised above, why can't all other third world countries do what Korea did? For that we propose a simple numbers exercise. Let us assume that the rest of the underdeveloped countries were able to carry out the Korean model – that is, attain South Korea's level of **\$1,365** exports of manufactured goods per capita. (Korea's ratio is by far the **lowest** of all four tigers.) The population of the rest of the third world is over 4 billion. Hence, if we can let our imagination go, and assume that the 4 billion could successfully export at the same ratio as South Korea, they would need to sell abroad **\$5.5** trillion of manufactures. But the entire world trade in manufactures these days is less than half that amount, about **\$2.1** trillion. To whom would the extra **\$5.5** trillion be sold? Where are there markets for such an enormous leap in business, or anything conceivably near that number? Let us consider once more the data in Table 12. With all the energetic expansion of manufactured exports from 1966 to 1986 by the four 'tigers' and other newly industrialising countries like Brazil and Mexico, all that the underdeveloped nations were able to latch on to was below **15** percent of the world total. In **1989**, the most recent year for which such data are available, the third world's share of the **\$2.1** trillion foreign trade of manufactured goods was no more than **13** percent.

There is an instructive paradox in Korea's and Taiwan's ability to industrialise and penetrate the privileged trade preserves of the industrial countries. (We are omitting the city-states of Hong Kong and Singapore from this discussion because their history and structure make them especially exceptional.) For their start was made during a hiatus in direct

foreign investment and other economic ties – in other words when their ties to the imperialist network of investment and trade were at a minimum:

For the twenty years between the end of World War II and the **mid-1960s**, transnational corporations were virtually absent from the scene. Japanese investments were confiscated at the end of World War II and did not reappear as an important factor until the mid-sixties. Nor were US companies important actors during this period. North American transnational-were busy taking over the fledgling consumer durables industries of Brazil and Mexico, dominating them through tightly concentrated sets of oligopolistic, wholly owned subsidiaries; but they showed little comparable interest in East Asia. Not only were Taiwan and South Korea small and poor, they had no history as previous markets for US markets and little familiarity with the consumer durables on which import-substituting industrialisation was based in Latin America. Even more important, previously successful Communist armies sitting just north of the thirty-eighth parallel and just the other side of the Formosa straits made Taiwan and South Korea very unattractive investment sites to political risk analysts.

In the early 1960s, their colonial trade patterns disrupted by the Japanese defeat, South Korea and Taiwan embarked on what **Bruce Cummings** calls 'remarkably similar import-substitutions programs' in which key industries were 'protected by and nurtured behind a wall of tariffs, overvalued exchange rates, and other obstacles to foreign entry'. This early period of withdrawal from international markets was critical to the construction of an industrial base in both countries. Nor was the tendency to ignore the apparent logic of the international market simply a passing **phase**.<sup>10</sup>

There are undoubtedly other factors that distinguish the experience of Korea and Taiwan. But it would be hard to underestimate the importance of the loose links to the imperialist centre in the early days of their industrialisation, and the later offsetting pressures of the two powers in the Pacific, the United States and Japan. The situation today is obviously very different from the early postwar years. Accelerated globalisation in the midst of stagnation stimulates the industrial powers to seek even closer ties with third world countries, which serve as assets in the search for a higher rung in the hierarchical ladder.

#### IV

##### *The road to trade, investment, and currency blocs*

The competition for privileged positions leads to the formation of blocs and clusters of weaker nations centred on one or more of the major powers. These formations are still in an early stage of development, but the tendencies in that direction are becoming increasingly clearer. It is therefore not surprising that several recent UN publications have called attention to these developments. Reports by UNCTAD and GATT discussed the development of tripolar trade blocks and trade centres. The UN Centre on Transnational Corporations added to the title of its most recent report (*World Investment Report 1991*): 'The Triad in Foreign Direct Investment'. The Triad refers to the three main economic poles in international economic and financial relations – the European Community, Japan, and the United States. The European Community as a whole is treated as a pole in view of the vast amount of cross investment that has

taken place within the community. The question of the European Community having its own internal **pole** in **Germany** is not discussed.

The **Transnational Centre study** concentrates on the clusters connected with global flows of foreign direct investment, but also takes note of the connections between the latter and trade and currency groupings. We discussed earlier the growing international role of the German mark and the Japanese yen. With respect to currency blocs, this report focuses on the dollar bloc:

Over the past two decades, developing countries appear to be moving towards a system in which their currencies appear to be linked, more or less closely, with currencies of major home regions, depending upon the strength of their trade, investment and financial relationships. Thus, a dollar bloc appears to exist, composed largely of countries in Latin America and the Caribbean, along with a few other countries, such as some oil-exporting countries whose ties to the dollar are undoubtedly due to the fact that the world price of oil is quoted in dollars. In most cases, those countries operate a managed float versus the dollar, or a float tied to economic indicators which are themselves linked to the **dollar**.<sup>11</sup>

The Latin American dollar bloc is of course a product of the history of US penetration of Latin America. Although European and Japanese business firms are also active here, the United States remains the dominant foreign investor and trader in a number of Central and South American countries. At present, Mexico is the magnet for US investment in Latin America, and is likely to become even more so if the **US/Mexico** free trade is put into effect. Establishment long-term planners visualise the formation of a **US-Canada-Mexico** free-trade bloc that will evolve into one for all the Americas, while some already speculate about the dollar becoming the currency of the entire area.

As is well known, relations among the powers are shifting in the Asian Pacific. Although the US military machine is firmly planted in the Asian Pacific, accompanied by an extensive presence in the political and economic affairs of that area, America's status is not what it once was. It remains the major investor and economic influence in its former colony, the Philippines, and is a prominent influence in the political and economic affairs of other countries in that region as well. Its role, however, is being eroded by the active rise of Japanese influence in the region. Japan is now the top trading partner with South Korea, Singapore Malaysia, and Indonesia. It is the dominant foreign investor in South Korea and Indonesia and since the mid 80s appears to be fast approaching that status in Thailand and Hong Kong. **Moreover**, as pointed out in a study for the US Congress (Congressional Research Service, *Japan's Expanding Role and Influence in the Asia-Pacific Region*, September 7, 1990):

Although Japan's role as an exporter of manufactured goods and an importer of primary products from Asia-Pacific countries is long-standing, its post-1985 emergence as the leading source of capital and technology, and as a growing market for manufactured goods, has made Japan the 'core economy' and financial nerve centre of the region.

A seemingly coordinated policy is discernible behind these changes, one that includes foreign aid, firm trade ties, foreign loans and investments, and the shifting of manufacturing operations to low-wage countries. According to *The Economist* (July 15, 1989), the underlying strategy is aimed at integrating the 'four tigers' and those aiming to join the ranks of the 'tigers' (Thailand and Malaysia) 'into something that would look a lot like a greater Japan Inc.' The same article describes The New Asian Industries Development Plan, sponsored by the Japanese Ministry of International Trade and Industry (MITI) and a related ASEAN-Japan Development Fund as 'at the cutting edge of Japan's initiative to organise the industrial integration of East and Southeast Asia'.

The third cluster of currency, trade, and investment is of course centred on the European Community. For the most part these are ties that were generated in former European colonial possessions in Africa and Asia. But new windows of opportunity have arisen for the EC in Central and Eastern Europe. Since 1985, EC members are the dominant foreign investors in Yugoslavia, Czechoslovakia, Hungary, and Russia. The strategic outlook for the European Community – an outlook that has deep historical roots, especially in the case of Germany – is the creation of a periphery in Central and Eastern Europe, resembling the regional networks of investment, finance, and trade being built by Japan in Asia and the United States in the American continents.

None of this should be interpreted to mean that the major powers have any intention of withdrawing from the world scene. Quite the contrary. The United States, to be sure, wants to see the entire globe as its domain. And while Germany and Japan do not have the military might to stalk the world, they are major players in the global arena of trade, finance, and investment. Things may change if and when firm trade and investment walls are erected around the several regions. But in the absence of such sharp separation, competitive economic struggles will no doubt continue on a global scale. In the absence of the kind of breakdown as occurred in the 1930s, it is reasonable to expect a continuation of the tension between globalisation, on the one hand, and furtherance of blocs, on the other. The latter serve both offensive and defensive strategies. They can be assets in the struggle for a position at the top of the hierarchy of nations. Apart from that, ties with peripheral dependencies can be especially useful to core countries in times of stagnation, financial turbulence, and potential major crises. It should come as no surprise that when domestic economies lose steam and internal problems accumulate, the stronger nations turn more energetically to external expansion for relief.

The pressure toward expansion necessarily produces political as well as economic strains among nations, as is evident in the thrust by major powers for greater independence from the United States. Note, for example, the following dispatch in the Wall *Street Journal*:

Across a wide range of issues, from trade to foreign aid to interest rates, the US and Europe increasingly find themselves at odds. And the Europeans, confident in the strength of a unified European economy and freed from the Soviet threat, are less willing than ever to bend to US pressure.

Listen, for instance, to German Chancellor Helmut Kohl speaking to a group of business students in Switzerland. 'Europe's return to its original unity means that the 90s will be the decade of Europe, not Japan', he said in a recent 45-minute speech, which made only one brief reference to the US. 'This is what we've all dreamed about. This is Europe's hour'. (July 15, 1991).

This is of course largely bravado. The unified Europe Kohl anticipates is still in a process of formation. There are stumbling blocks along the way which may prevent its realization. Nevertheless, what is interesting here is that these remarks are not out of harmony with the aspirations and **long-run** strategies of the German ruling class, which, judging from history, are firmly rooted. In recent times, that strategy shows up in Germany's assumption of the leadership role in Western Europe, its thrust towards Central and Eastern Europe, as well as a widening of the distance from the United States. Its regional economic predominance can be seen in the central role of the mark in the European currency unit and in the nature of the negotiations for further unification of Western Europe's currency system. As for the moves towards growing assertiveness, the most recent example at the time of writing was the way Germany pressured the European Community to recognise the independence of Croatia and Slovenia, to which the United States and the UN acceded in order to avoid a clash with Bonn.

Japan too has been moving decisively in the direction of greater independence. During the first decades after the Second World War, Japan operated under the US umbrella. Beginning in the **1970s**, Japan has been increasingly moving away from its earlier subservience to the United States in diplomatic matters, advancing its own political as well as economic interests in the region, even when they conflict with those of the United States.

Although history does not repeat itself in precise fashion, it is worth noting that these centrifugal tendencies echo similar developments that emerged (a) between the Great Depression of the nineteenth century and the First World War, and (b) between the Great Depression of the 1930s and the Second World War. Carrying such analogies too far and in mechanical fashion can be misleading. Nevertheless, they merit attention, because the resemblances are not mere accidents. Rather, they arise from similar economic and political forces.

The process of globalisation has produced much that is new in the world's economy and politics, but it has not changed the basic ways capitalism operates. Nor has it aided the cause of either peace or prosperity.

## NOTES

1. It is little **recognised** how significant the wars were to Japan and Germany in jump-starting their economies during the Korean **War** and strengthening their upswings during the Vietnam War. The influence of the Korean War on the Japanese takeoff was especially noteworthy, **as summarised** in an interesting recent **book**: 'Just two months after . . . the Korean tinderbox burst into flames . . . as the only nearby **industrialised** nation with adequate manufacturing capacity, Japan's underemployed factories and work force benefited enormously from Korea's misfortune between 1950 and 1955, first as suppliers of war materials and services for United Nations and after the July 1953 armistice, as suppliers of materials needed for the reconstruction of South Korea. Former Economic Planning Agency official Tatsuro **Uchino** estimates that special procurement, broadly defined, during the period pumped between \$2.4 and \$3.6 billion into the capital-starved Japanese economy and accounted for an amazing 60 to 70 percent of **all** of Japan's exports. Also significant for Japan's postwar economic development, this unanticipated expansion of demand was strongest in industries such as textiles, steel products, and automotive equipment, the very sectors that would lead Japan's export drive during the 1950s and the 1960s.' (Robert C. Angel, *Explaining Economic Policy Failure, Japan in the 1969-1971 International Monetary Crisis*, New York: Columbia University Press, 1991.)
2. *The Economist*, April 27, 1991.
3. Ralph C. Bryant, *International Financial Intermediation*, Washington D.C., The Brookings Institution, 1987, p. 22.
4. Morgan Guaranty Trust Company, *World Financial Markets*, April 1991.
5. 'The International Role and Fate of the Dollar', *Foreign Affairs*, Winter 1978/79, pp. 270-1.
6. Peter F. Drucker, 'The Changed World **Economy**', *Foreign Affairs*, Spring 1986.
7. George S. Tavlas, *On the International Use of Currencies: The Case of the Deutsche Mark*, Princeton University Essays in International Finance, March 1991.
8. George S. Tavlas and Yuzuru Dzeki, 'The Internationalization of the Yen', *Finance and Development*, IMF, June 1991.
9. Alexander J. Yeats, 'African Countries Pay More For Imports', *Finance and Development*, IMF, June 1990.
10. Peter Evans, 'Class, State, and Dependence in East Asia: Lessons for Latin Americanists'. This significant essay appears along with other informative and thoughtful essays in Frederic C. Deyo, ed., *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987).
11. United Nations Centre on Transnational Corporations, *World Investment Report 1991*, p. 79.