INTERNATIONAL ECONOMIC ASPECT OF GLOBALIZATION : THE CASE OF CAPITAL MOVEMENTS AFTER THE COLD WAR

Thesis submitted to the

Institute of Social Sciences

in partial fulfillment of

the requirements for the degree of

Masters of Arts

in

International Relations

By

NADİRE TUNCA

Fatih University

November 2005

APPROVAL PAGE

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Arts.

Prof.Dr.M.Lütfullah Karaman
Head of Department

This is to certify that I have read this thesis and that in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Arts.

Prof.Dr.M.Lütfullah Karaman
Supervisor

Examining Committee Members

Prof.Dr.Ömer Çaha

Prof.Dr.M.Lütfullah Karaman

Assoc.Prof.Dr. Bülent Aras

It is approved that this thesis has been written in compliance with the formatting rules laid down by the Graduate Institute of Social Sciences.

Director
Assist.Prof.Dr.Mehmet Orhan

Date
November 2005

AUTHOR DECLARATIONS

The material included in this thesis has not been submitted wholly or in part for any academic award or qualification other than that for which it is now submitted.

The program of advanced study of which this thesis is part has consisted of:

Research Methods course during the undergraduate study

Examination of several thesis guides of particular universities both in Turkey and abroad as well as a professional book on this subject.

NADİRE TUNCA

November, 2005

ABSTRACT

NADİRE TUNCA **November 2005**

International Economic Aspect of Globalization : The Case of Capital Movements After the Cold War

In this thesis, I will attempt to discuss globalization within the context of international political economy and particularly with reference to capital movements after the Cold War. In the first chapter, I would like to discuss the subject by first describing the globalization which can be shortly named the new economic order. In the second chapter, I focused on measuring economic globalization, definition of poverty, structural adjustment programs, transnational companies, economic differences between developed and developing countries. In chapter three, I concentrated on financial globalization, comparing the economic differences. In chapter four; I tried to analyze the direction of the net capital flows and transnational companies (TNC) with regard to the consequences of developing countries. Since the beginning of the emergence of a capitalist market economy, the world economy is shaped around a core and periphery. Finally, I put forward my critiques about the inherent instability and injustice of the global capitalist economic system. I argue that highly internationalized present world economy is not perfect: it is the product of a number of distinct conjunctures or states of the international economy. International economy is less open and equally integrated. Great Power struggles have reshaped interaction of economic relations and politics. Collective decision-making mechanisms for the global economy simply do not exist.

Key Words:

Capital Movements, Globalization, Economic Globalization, Transnational Corparations, Foreign Investment, Income Gap

ÖNSÖZ

NADİRE TUNCA **Kasım 2005**

Küreselleşmenin Uluslararası Anlamda Ekonomik Yönü : Soğuk Savaş Sonrası Sermaye Hareketleri

Bu tezde, küreselleşmeyi uluslararası siyasal ekonomi bağlamında, özellikle Soğuk Savaş sonrası sermaye hareketleriyle ilgili olarak incelemeye çalıştım. İlk bölümde, konuyu öncelikle, kısaca yeni ekonomik düzen olarak adlandırabilecek olan küreselleşmenin tanımını yaparak incelemek istedim. İkinci bölümde, ekonomik küreselleşmeyi, yoksulluğun tanımını, yapısal uyum programlarını, milletlerüstü şirketleri, gelişmiş ve gelişmekte olan ülkeler arasındaki ekonomik farklılıkları araştırmaya odaklandım. Üçüncü bölümde, ekonomik farklılıkları karşılaştırmak suretiyle finansal küreselleşmeye ağırlık verdim. Dördüncü bölümde ise, gelişmekte olan ülkelerin elde ettikleri sonuçlar bakımından net sermaye akışlarının yönünü ve milletlerüstü şirketleri analiz etmeye çalıştım. Kapitalist bir piyasa ekonomisinin ortaya çıkmaya başlamasından beri dünya ekonomisi bir merkez ve çevre etrafında şekillenmiş durumdadır. Son olarak da küresel kapitalist ekonomik sistemin özündeki istikrarsızlığa ve adaletsizliğe ilişkin eleştirilerimi ortaya koydum. Fazlasıyla uluslararasılaşmış durumda olan mevcut dünya ekonomisinin mükemmel olmadığını savunuyorum: bu, uluslararası ekonominin bazı belirgin konjonktürlerinin veya devletlerinin bir ürünüdür. Uluslararası ekonomi daha az açık ve aynı şekilde entegredir. Büyük güç savaşları ekonomik ilişkiler ve siyaset arasındaki karşılıklı etkileşimi yeniden biçimlendirmiştir.Küresel ekonomiye yönelik kolektif karar alma mekanizmaları mevcut değildir.

Anahtar Kelimeler

Sermaye Hareketleri, Globalleşme, Ekonomik Globalleşme, Uluslarüstü Şirketler,Yabancı Yatırım, Gelir Eşitsizliği

LIST OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

EU	: European Union
FDI	: Foreign Direct Investment
GDP	: Gross Domestic Product
IPE	: International Political Economy
LDCs	: Less Developed Countries
No.,	: Number(s)
p.,pp.	: page(s)
PWT	: Penn World Tables
SAPs	: Structural Adjustment Programs
TNCs	:Transnational Corporations
TRIPS	: Trade-Related Aspects of Intellectual Property
U.S	: United States
UNDP	: United Nations Development Programme
Vol., Vols.	: Volume(s)
WB	: World Bank
WTO	:World Trade Organization

ACKNOWLEDGEMENTS

This project would not have been possible without the support of many people. Many thanks to all my teachers studying Faculty of Economics and Administrative Sciences in Fatih University; namely, Prof. Dr. M. Lütfullah Karaman, Assoc. Prof. Dr. Bülent Aras, Prof. Dr. Ömer Çaha and Yrd. Doç. Dr. Berdal Aral , who helped make me correct some sense of the confusion and offered guidance and support. Thanks to my University for awarding me a Graduate Fellowship, providing me with the financial means to complete this project. And finally, thanks to my husband who endured this long process with me and especially to my Father and my Mother who always offered support and love.

INTRODUCTION

In this thesis, I will attempt to discuss globalization within the context of international political economy and particularly with reference to capital movements after the Cold War. I would like to begin to discussion by first describing what globalization is. This study will rest upon an extensive literature survey, by which I intend to synthesize the ideas of social scientists with different scientific backgrounds. I think that the process of globalization can be traced back to the transformation of the "world economy" into a "global economy".

The global economy is characterized not only with free trade in goods and services but also with the free movement of capital. Interest rates, exchange rates and stock prices in various countries are interrelated among themselves.

Financial capital enjoys a privileged position. Financial capital is more mobile than direct investment. Financial capital is inclined to move to the places that it senses most profit. As it is the harbinger of prosperity, individual countries compete to attract it. The development of a global economy has not been followed by the development of a global society. International trade and global financial market are very instrumental in generating wealth, but they can not pay attention to other social needs such as the preservation of peace, alleviation of poverty, protection of the environment, labor conditions or human rights. In addition, globalization has made the world more interdependent and increased the possibility of a damage that emerged in one country to jump into other countries immediately.

Very few resources are allocated to the compensation of injuries globalization caused, to which increasing economic gap between developed and developing countries more contribute. The richest %1 of the world's population possess the same amount of revenue with the poorest %57. More than a billion people live on less than a dollar a day.[1]

In this thesis, I would like to investigate the ways for the stability and regularity of a truly global economy, for which, I think, we need to have a global political decision making aparatus and a global society to support the global economy.

[1] Human Development Report (2001), New York: United Nations Development Programme.

CHAPTER ONE

DEFINING GLOBALIZATION

Globalization is a highly contested and hotly debated concept in the current phase of international political economy (IPE). It is characterized by growing scholarly differences over social, political, economic and cultural impact it produces across national borders.

Viewed mostly in economic terms, it is usually taken to mean the recent massive increase in global trade and internationalization of production and distribution strategies along with the unprecedented mobility of global finance capital pushed forward by the dazzling advances in information technology.

It is not, however, the phenomenal growth in global trade, investment and financial flows that has led to scholarly debates and differences over the concept; scholars are, indeed, more concerned about how cross-border economic integration impacts on social processes across national territories in terms of economic well-being, political sovereignty, and the organization of social and cultural life.

The neoclassical and orthodox economists (Mandle[2], Hussain[3], Krugman[4], Bhagwati[5]) argue that liberalization of markets promotes perfection in economic organization and management which in turn facilitate further growth and human welfare. An impetus to and achievement of growth eventually reduce or alleviate poverty and the best way to attain economic growth is to seek integration into the global capitalist economy. They further claim that liberalization of capital accounts, trade and investment regimes and privatization of national economies will attract more foreign direct and portfolio investment in the long run and thus create more employment opportunities for the poor.

Labor is the primary asset of the poor and the establishment of labor intensive industries helps reduce their unemployment. Similarly, the liberalization of capital and investment regimes promotes domestic macro-economic stability, sets out the conditions for high growth rates, lowers inflation and it is the poor who are the prime beneficiaries of high growth-cum-low inflation. The percentage of poor people under neoliberal economic globalization is gradually declining as a whole.

---

[2] J.Mandle, (1997), "The Good Side of Going Global", *Commonweal*, 124, No.13 , pp.1-8.
[3] Ishrat Hussain, (1996), *Globalization and Liberalization: An Opportunity to Reduce Poverty in UNCHTAD,* David Woodward(ed.) Globalization and Liberalization: Effect of International Economic Relations on Poverty , New York and Geneva: United Nations , pp.13-23.
[4] Paul Krugman , (1994), Peddling Prosperity : Economic Sense and Non sense in the Age of Diminished Expectations,New York¨W.W. Norton , pp.87
[5] Jagdish Bragwati (1994), "Free Trade : Old and New Challenges" *The Economic Journal*, Vol.200, No.1, pp. 60-65.

Globalization has been defined differently in the literature of international political economy. In the first part, I want to explain three important terms deriving from the word "global": globalism, globality and globalization whether as a positive or negative phenomenon.

In the second part, I will emphasize the origins of globalization and its post-modern characteristics. There are various definitions for globalization. In my thesis, I define globalization as free movement of capital and increasing domination of national economies by global financial markets and multinational corporations. Therefore, I think that globalization has developed hand in hand with international financial markets.

1.1. The Global Age : "Globalization" as a Process

After 1980s we encounter the terms "global age," "globalization" and "globalism" very frequently. What is the meaning of the globalization? How we understand the term will have a strong impact on the way we explain any problem and phenomenon in the contemporary world. I have to first explain the meaning of three important terms that derive from the word "global," which are, globalism, globality and globalization. Globality can be defined as: "…the objectification of the outcomes of human interaction with the world and therefore takes on an independence not only in respect of individuals but even with respect to humanity as a whole."[6]

Globalism, on the other hand, is a reference to the level. If there is a problem in the world, we consider it at a global level. According to Robert O. Keohane and Joseph S. Nye, there are four types of globalism: Economic, military, environmental, and social and cultural globalism. It is a very useful starting point to understand the period between 1850 and 1914, a period known as the First Global Age. The globalism between these years was an economic one, which declined during the period between 1945 and 1975. But, military globalism rose between the two World Wars.

---

[6]Martin Albrow, (1988) , *The Global Age* , Boston, Unwin Hyman Press.pp.98.

If globalism is defined as "a state of the world involving networks of interdependence at multicontinental distances," then globalization refers to the increase in the degree of globalism.[7] Globalization can be considered as a process through which all is transformed into the "global": "Globalization is not new, nor it is just Westernization: Over thousand of years, globalization has progressed through travel, trade, migration, spread of cultural influences and dissemination of knowledge and understanding (including that of science and technology)".[8]

Globalization can also be defined as "the close of the national history of capital and the beginning of the history of the expansion of capital nationality."[9] Globalization can also be used to signify a present change in every field such as globalization of fashion, globalization of economy, globalization of crime, globalization of media etc.

After 1980s, there have been discussions around the term globalization: "Is globalization a source of economic growth and prosperity, as most economists and many in the policy community believe? Or is it a threat to social stability and the natural environment, as curious mix of

---

[7] Robert O. Keohane and Joseph S. Nye Jr. (2001), "Globalization: What's New? What's Not?(And Do What?)", *Foreign Policy*, Vol.118,No.1,pp.104-119.
[8] Amartya Sen (2002), "Ten Thesis On Globalization" ,*New Perspectives Quarterly*, Volume 18,No.4 ,pp.46-54.
[9] Gary Teeple (1995), What is Globalization? Globalization and Its Discontents, New Jersey, Humanities Press.

interests ranging from labor advocates to environmentalists and including the unlikely Trio Ross Perot, George Soros and Sir James Goldsmith – argue?"[10]

Upward going economic forces are positively leading to a more efficient use of the world's scarce resources, and this seems to be going to result in maximization of global wealth and enable all peoples to benefit economically.[11]

Fukuyama shaped a political framework for globalization by promoting a belief that "capitalism and liberal-pluralist politics had triumphed over the dialectic of history, putting an end to history itself".[12]

For the second group, whose members consider globalization as a "threat," globalization is a negative phenomenon. It has been argued that globalization created unequal distribution of wealth, which led to polarization among and within peoples both in developed and underdeveloped peoples. While the "Western Triad" of U.S., E.U. and Japan are the centers of the benefit of global capital and wealth, underdeveloped countries are mechanically subordinated to their benefit, as a result of which they suffer the destruction of their domestic producers and workers. According to United

[10] Dani Rodrik (1997) , "Sense and Nonsense in the Globalization Debate", *Foreign Policy* ,Vol.107,Summer,pp.19-37.
[11] Robert Gilpin (2000), *The Challenge of Global Capitalism: The World Economy in the 21st Century* , Princeton : Princeton University Press, pp.25-36.
[12] Farhang Rajaee (1993), *A Theory Of Globalization* , Gainesville: Gainesville University Press of Florida, pp. 25-28.

Nations Development Programme's (UNDP) Human Development Report, 20 percent of the world population in developed countries receive 82.7 percent of the total world income, while 20 percent of people in the poorest countries receive only 1.4 percent (UNDP, 1992).[13]

[13] Martin Khor (2001), *Rethinking Globalization : Critical Issues and Policy Choices*, London & New Jersey:Zed Books Press.

1.2. The Origins of Globalization and Its Postmodern Characteristics

In the last quarter of the 20^{th} century, the world has entered a new era. Various thinkers named that era with various terms: Some called it as "the information age" some called as "post-industrial" era:

Amitai Etzioni speaks of the postmodern era, George Lichthiem of "post bourgeois society," Herman Kahn of "post-economic society," Murray Bookchin of "the post-scarcity society," Kenneth Boulding of "post-civilised society," and Daniel Bell of "post-industrial society" and so on and so forth. Others, with a positive orientation, have spoken of "the knowledge society" (Peter Drucker), "the personel service society" (Paul Halmos), "the service class society" (Ralf Dahrendorf), and the "technocratic era" (Zbigniew Brzezinski).[14]

Or to put other way:

"There are a lot of definitions for the word 'change'; 'Information economy' (Machlup), 'technocratic age' (Brzezinski), 'post capitalism'; 'service class society', (Dahrendorf, 'post-industrial period' (Bell, 'knowledge society' (Masuda, Giddens), 'neither anti-capitalist nor non-socialist society' (Druckner), 'third wave society' (Toffler), 'postmodern era' (Etziioni,

[14] Krishan Kumar, (1978), *Prophecy and Progress: The Sociology of Industrial and Post-industrial Society*, London:The Penguin Press, (Japanese translation, Bunshindo Publishers, 1996), pp.193-196.

Habermas, Jameson, Lyotard), 'after-bourgeoisie society' (Lictheim), 'after economy society' (Kohn), 'after scarcity society' (Bookchin), 'after civilisation society' (Boulding), 'disorganized capitalism' (Offe, Lash and Urry), 'second-industrial divide period' (Piore and Sabel) are among the most known."[15]

Some even argued that we have an informational mode of production.[16] The new economy is also called as the "techno capitalism".[17]

It is important to note that in the last two decades of 20th century, capitalism was restructured by new policies that we observe as more flexible forms of management; decentred organisation in networks of firms; increased power of capital over labour; individualization of work; much larger incorporation of women into the paid labour force yet continuing gender discrimination at work; deregulation of markets and the undermining of welfare state; and intensified global competition in conditions of high geographical and cultural differentiation[18] All these changes could not be applied without technological revolution.

It can be argued that in the global era there is a difference between "world economy" and "global economy": According to Manuel Castells, the

---

[15] İlker Belek (1999), *Postkapitalist Paradigmalar* , İstanbul: Sorun Yayınları,p.21.
[16] Gencay Şaylan (1999) *Postmodernizm* ,Ankara: İmge Kitapevi Yayıncılık, pp. 26-29.
[17] Steven Best & Douglas Kellner (2001), *The Postmodern Adventure*,New York: The Guilfort Press, pp. 103-106.
[18] Jim Mac Guigan (1999), *Modernity and Postmodern Culture*, Bukingham:Open Universty Press, pp. 106-120.

world economy means that capital flows across the world, whereas the global economy means that capital flows on a planetary scale. A similar view came from Bauman, one of the leading thinkers of the contemporary era:

Modernity had once deemed itself *universal.* But it now deems itself instead of this as global. Universal was to be the rule of reason – the order of things that would transform slavery into human beings with the autonomy of rational beings, superstition and ignorance with truth, tribulations of the drifting plankton with self-made and thoroughly monitored history-by-desing. "Globality," in contrast, means merely that everyone everywhere may feed on McDonald's burgers and watch the latest made-for-TV docudrama. Universality was a proud project, a herculean mission to perform.

Globality, in contrast, is a meek acquiescence to what is happening "out there"; an admission always tinged with the bitterness of capitulations even if seemed with an "if you can't beat them, join them" self-consoling exhortation.[19]

---

[19] Zygmunt Bauman (1995), *Life in Fragments* ,Cambridge Mass:Blackwell Publishers, pp.24-32.

CHAPTER TWO

ECONOMIC GLOBALIZATION AND ITS CHARACTERISTICS

2.1 Measuring Economic Globalization

Globalization has posed dilemmas to countries integrated to the world economy, by inspiring a 'borderless world' or the 'end of the nation state'. International interaction is at its zenith. We drive German cars, eat French food, drink Colombian coffee, wear Italian clothes, use American software. If we are to explain this in numbers:

On a global scale the number of fax machines per 1,000 people risen from 3,8 in 1989 to 12,3 in 1997. The number of internet hosts per 10,000 people rose from 8,6 in 1994 to 94,4 in 1999. Expenditures on information and communication technology as a percentage of global GDP rose from 5,7 percent in 1992 to 6,9 percent in 1999. Internatıonal telecommunications per subscriber rised from 52 minutes in 1981 to 129 minutes 1999. Expenditures on international tourism have risen from $110 billion in 1980 to $416 billion in 1999. The number of internet users increased from 45,000 in 1990 to 241 million in 1999.[20]

---

[20] Philippe Legrain (2002), *Open World: The Truth about Globalization* ,London: Great Britain, Abacus Press, pp.25-26.

But some parts of economy are more open than others. Even though the world economy is more globalized than ever, it is not as globalized as it seems, which I will analyze in the next section. We will never live in a truly global world. Globalization is a process, not a destination, though Thomas Friedman differently argues that globalization is a "system" that replaced the 'Cold War System'.[21] Hollywood, Coca Cola, Levi's Jeans and Big Macs had long colonized commercial culture. Globalization is not a 'system': it is a process of integration and internationalization, one that was happening during the Cold War and continued since. Ulrich Beck, a German sociologist, says globalization denotes the processes through which sovereign national states are criss-crossed and undermined by transnational actors with varying prospects of power, orientation, identities and networks.[22]

Now I want to analyze how globalization is measured. According to Paolo Figini's criteria for measurement of globalization, which he described in his article "Openness, Economic Reforms and Poverty" as [E (Exports) + I (Imports)] / GDP indicator, in measuring the level of globalization of a country, its the level of GDP is not less important than its exports or imports[23]. Liberalization of financial markets brought about a tremendous increase in capital flows, particularly in form of Foreign Direct Investment

---

[21] Thomas Friedman (2000), *The Lexus and The Olive Tree*, New York: Harper Collins ,p.56.
[22] Ulrich Beck (2000), "What is Globalization?", *Polity Press* , pp. 11-13.
[23] Paolo Figini and E. Santerelli (2005), "Openness, Economic Reforms and Poverty: Globalization in the Developing Countries" , Journal of Developing Areas , Vol.6, No.3, pp.299-341.

(FDI). Another criteria for measuring globalization is FDI / total capital formation. There is much debate on reliance upon FDI as something to interpret financial openness. Because diversity and intensity of alternative instruments that governments can use to limit capital movement across borders is such that FDI may appear to be a very limited criteria.

On the other hand, critics of globalization censure the liberalization of global financial markets for their allegedly negative effects observed in the emergence of and increase in financial speculation, unemployment and poverty.[24] On this matter, short-term speculative capital movements are in high correlation with FDI, which means that FDIs may as well lead to the same kind of negative effects with those of portfolio investment.

[24] Andrea Giovanni Cornia and Nguyuru HI Lipumba (1992), "Liberalization of Financial Markets", *Journal of Political Economy*, Vol.100,No.2 , pg.223-251.

2.2 Dilemma Of Interdependency

Globalization is closely associated with the fact that in a more interdependent and interactive world, any adverse global or regional incident, such as the Asian and Russian economic crisis in 1997-1998, is spread over and contaminate many other countries.

The effect of contamination can be seen as a decline in the import volumes and/or changes in the real price of commodities (oil, copper, timber, etc.). Economies that operate by dependence on a few commodities as their main export materials can be hit hard by these shocks.

The effect of contamination can also be seen in asset markets. Highly integrated financial markets tend to spread global, regional or local crisis much more rapidly than it happened in past decades when financial markets were less integrated. Portfolio shifts affect exchange rates, interest rates and economic activity.

As the volumes of financial intermediation and currency transactions are enormous nowadays, crisis can easily spread in a more or less synchronized fashion with destabilizing effects on many countries and global capital markets dominated by foreign direct investment.

There is ample empirical evidence which shows that uncertainity paralizes capital formation (and thus productivity growth), and this results in an adverse effect on economic growth. Thus instability and high volatility can ultimately be considered as an obstacle to growth and prosperity.

In many cases, instability originates from abroad. However, the effectiveness of the domestic policy response against adverse external crisis also matters. The nature and timing of domestic policy responses can soften or increase the impact of these shocks.

2.3 The Structural Definition of Poverty

The way that I construct a structural explanation about the emergence of poverty will undoubtedly be very closely related with how we define it in the first place. There is no doubt that poverty is a highly debated concept like globalization rather than being a received reality.

Most scholars, while trying to make a definition of poverty, disagree with the World Bank (WB) approach to poverty that defines it in terms of income and consumption levels. The WB prioritizes the condition of the inability of people to generate sufficient income for the purchase the basic necessities life. Poverty is said to be reduced or eliminated when people achieve a minimum level in living conditions.[25] The problem with this definition is that it sidetracks crucial issues of inequalities in income distribution, social marginalization and resultant social and political conflicts. Some scholars pay more attention to these factors and view poverty as a political rather than an economic problem[26].

According to them, poverty originates from unequal and exclusionary process of economic development, but accentuates due to the absence of distributive justice in the society. Capitalist development without a human face leads to the accumulation of wealth in the hands of a few individuals,

---

[25] The World Bank (1996) , "The World Development Report".
[26] http://www.globalpolicy.org/soceco/develop/ (15 August 2005)

who in turn enjoy unlimited social power and exert political influence to promote their individual interest.

Social inequalities thus exacerbate and push disadvantaged people towards the margins of survival. Scholarly attention is, therefore, being increasingly recast on concepts like 'marginalization', 'social polarization', 'gender relations' and so on.

For example, Durfee and Rosenau define poverty as "realities and fears of substandard living conditions" that hold the possibility of social polarization along ethnic and cultural lines;[27] Mittelman and Tambe view poverty as "the experience and perception of marginalization that have been locked in through structural pressures"[28].

Marginalization, according to Mittelman and Tambe, should be understood as a process of decreasing returns from increasing efforts that are linked to work relations in the global economy. Both employed workers with low skills and unemployed people experience marginalization, that is, lower returns from works with huge efforts.

---

[27] Mary Durfee and James Rosenau (1996), "Playing Catch-up.:International Relations Theory and Poverty" , *Millennium Journal* , Vol.25, No.3., pp.67-69.

[28] James H. Mittelman and Ashwini Tamble (1999), *Reconceptualizing Global Poverty: Globalization, Marginalization and Gender*, Lanham: Rowman and Littlefield Publishers, pp.78-80.

The number of the poor living below the 'absolute poverty' line in 1992 was 1.4 billion;[29] and this number rose up to such a catastrophic level as 4.3 billion.[30] A significant portion of these poor people live in South Asia and Sub-Saharan Africa. Almost half live in South Asia and the rate of poverty in Sub-Saharan Africa is remaining constant at some 39 percent over the years. But the questions are: Why is not poverty reduced in most of developing countries in the South, despite their growing transition into neoliberal economic globalization? What explains the steadily high poverty levels in these countries?

The process of marginalization arising out of work relations in the capitalist global economy but views poverty more as a structural reality that is put into effect by the very composition of the neoliberal global economic order. The structural composition of the global economy rests on three main components:

First, institutional arrangements in favor of free trade under the supervision of World Trade Organization (WTO) supported by a worldwide program of deregulation and privatization of economic activity. These

---

[29] Michael W. Doyle (1999), *Global Economic Inequalities: A Growing Moral Gap,*in Wapner, Lanham Publishers.
[30] The World Bank , *Poverty Reduction and the World Bank : Progress in Fiscal 1996 and 1997*, Washington D.C.: The World Bank.

arrangements were engineered by World Bank (WB) and International Monetary Fund (IMF).

Second, massive drive for capital accumulation by transnational capital under the leadership of transnational corporations (TNCs). And third, the unequal participation of Southern elites in the global capitalist order that breeds structural imbalances betwen the industrial North and the undeveloped South.

This structural set-up serves the interests of dominant capitalist class in the Western developed countries which underwrite the rules for global economic, business, technological and financial interactions but also work in collaboration with the dominant social forces in developing countries as junior partners.

The pattern of collaboration, although unequal and based on a dominant versus dominated relationship, produces a structure that tends to be biased in favour of the rich and wealthy people to the detriment of the poor everywhere. Poverty is a necessary by-product of this structural composition and functional mechanism of the global economy.

2.4 The Neoliberal Regime and developing countries

The neoliberal institutional arrangements that set out rules and regulations for international free trade, investment and financial transactions are spearheaded by the WTO, the WB and the IMF. While the WTO is engaged in the task of eliminating all barriers to global free trade, the WB and the IMF look after the liberalization of domestic capital accounts and privatization of the economies in developing Southern countries. As participants to the existing global economic order, developing countries are ideologically committed to adopt and implement liberal trading policies.

The Uruguay Round reflects this commitment to economic liberalism as it specifically mentions that all participating states, developed as well as developing, " … recognize the contribution that liberal trading policies can make to the healthy growth and development of their own economies and of the world economy as a whole."[31] This provides the WTO with the rationale to press hard for free trade on a global scale. The WTO-fostered free trade regime is not maintained by impartial and fair practices by all countries; indeed, there is a discernible gap between theory and practice. Developed countries usually follow discriminatory policies in their export - imports with developing countries. The discrepancies are highly visible in the patterns of tariff and non-tariff barriers to industrial goods from developing countries

---

[31] Francis Adams (1997), *Uruguay Round Reforms and the Developing World*, Boston: Kluwer Academic Publishers, pp.75-78.

that restrict their access to developed countries' markets. Under the new trade regime, developed countries - the US, the EC, Japan and Canada - have reduced their tariff levels by %50 in their mutual trade with each other, but with regard to developing countries the tariff levels have declined by less than one third. Moreover, the tariffs are tremendously high for primary-based and labour-intensive goods, in which developing countries specialize, compared to capital and high technology-intensive manufactures. Similar discreminatory policies also dominate the agricultural sector. High agri-tariffs prevent the accession of Southern agri-products to Northern markets and the elimination of important safeguards including price stabilization, procurement prices and minimum guranteed prices damage the interests of farmers and peasants in the South.[32]

The structural adjustment programs (SAPs) carried out by the WB and the IMF further weaken and damage the interests of developing countries. The policy package that SAPs try to advocate rests on three important elements: dismantling the role of the state in economic development; liberalization of trade and investment regimes; and privatization of economic activities. Of course, the two Bretton Woods institutions did not spontaneously formulated the SAPs and then imposed these on developing countries across the South; indeed the debt crisis of the 1980s created the

[32] David Woodward (2001), The Next Crisis Direct and Equity Investment in Developing Countries , London and New York : Zed Boks, pp.26-35.

main prelude to devise the SAPs and Mexico's second economic crisis in 1995 led to further tightening of the SAPs. It is after more than a decade that the IMF and the WB started to experiment with SAPs, but no major progress has still been achieved. Rather, the experiences of developing countries, particularly those in South Asia and Sub-Saharan Africa, confirm that the SAPs have very little to do with achieving the much-expected economic growth but structural subordination of the South to the North. This structural disadvantage is further aggravated by the limited productive capacity of most developing countries to make a strong entry into global markets. The problem of entering the market is generally related with the lack of necessary capital and technological know-how.

In today's global economy, a small group of people – the bosses of transnational corporations (TNCs) in particular – decide where money should go, what technology be applied and what goods are to be produced. This small group of people have created a world according to their own image, which late Susan Strange termed as 'international business civilization', a civilization which accepts scientists as priests and admires nothing less than efficiency.[33]

[33] Susan Strange (2001), *The Name of the Game*, in Rizopolous , N.(ed.), Sea Changes : American Foreign Policy in World Transformed.

Most of developing countries in the South rank poorly in the results of decisions by business elites since they are not considered worthy of investment. A lion's share of the investment they make in developing countries goes to a handful of countries in East and Southeast Asia and Latin America where poverty is steadily declining. The emerging scenarios, in a way, is creating a 'new global economic apartheid'. The vast majority of developing countries, almost 140, are registering very slow growth rates while the rich 24 and another 10 to 12 newly industrialized countries are enjoying economic prosperity.[34] SAPs are also strongly tied to the process of capital accumulation by transnational capital at the global level.

Indeed, SAPs are carefully formulated mechanisms that broadly fit into the dynamics of economic globalization and promote capital accumulation. Amoore et al (2000) have singled out four defining characteristics of economic globalization: protection of capital and capital accumulation on an expanded scale; the ascendancy of market ideology that supposedly homogenizes state policies and thus facilitate global capital accumulation; the emergence of a 'transnationalized institutional authority' that penetrates and bypasses states for the purpose of capital accumulation; and lastly, insulation of the opposing societal forces from decision-making processes of state. Despite social, political and cultural diversities and differences in the

[34] Robin Broad and John Cavanagh (2002), *Global Backlash: Citizen Initiatives to Counter Corporote led Globalization in Wapner*, Lanham: Rowman and Littlefield Publishers,Inc., p.87.

level of economic development between the developed and developing countries, the WB and the IMF work on a broad generalization that SAPs are applicable without any variations to all countries at any time. The overriding objective is to bring about harmonization in state policies to facilitate capital accumulation by transnational capital.

It is important to note that the TNCs are the prime movers and chief vehicles of economic globalization and the 'transnationalized institutional authority' (the WB, the IMF and the WTO) serves their interests more than anyone else. The dominance of the TNCs in the global economy is an accepted fact. The top 200 TNCs had a combined sale of US $ 7.1 trillion in 1995 which is equivalent to 28.3 percent of the world's gross domestic product. Headquatered in the US, Europe and Japan, top TNCs are capable of shaping the broad pattern and dynamism in global trade, production and financial transaction (Broad and Cavanagh).

The search for maximum profit by transnational capital in the aftermath of the debt crisis of the early 1980s resulted in the dismantling of state institutions in the South and the advocacy of a market ideology which is said to create a 'borderless' world. Choussudovsky mentions that the sole purpose of the 'rescue package' which the IMF, the WB and the Bank for International Settlements (BIS) devised to bail Mexico out of its second collapse was more intended to serve the interests of international financial institutions and creditor banks than Mexico's own interests.[35]

The Mexican government, under the negotiated deal, agreed to open its national banks to foreign ownership and use the entire oil export revenue to pay the debts. The Mexican example, in subsequent years, has been used to tighten IMF-WB nose on other developing countries. The IMF and the WB policies in more than 100 indebted countries now follow the same list of trade liberalization, privatization and deregulation across the board. They also control the central banks and ministries of finance of these countries. There is a parallel government staffed by IMF and WB personnel in the heavily indebted countries. This state of affairs leaves the junior partners, the third component of the global structural edifice, in a very precarious condition.

Most of the junior partners exercise little or no control over their macro-economics and social spending. Their major weaknesses originate from lack of capital, and technological backwardness. In most cases, they enjoy less access to international Money lenders than many TNCs which are preferred by creditor banks and financial institutions because of their efficient management, mastery over high technology, engagement with capital-

[35] Michel Choussudovsky (2000), *The Globalization of Poverty: Impacts of IMF AND World Bank Reforms* , London and New Jersey: Zed Boks Ltd. and Third World Network, Penang, pp.56-60.

intensive productive activities and access to markets worldwide. This situation rather compels developing countries to take the IMF-WB suggestions/guidance to heart. The hard credit lines these two institutions offer ultimately become the last resort for many governments in the developing world. Backed by the most powerful states – the US, the UK and Japan – the IMF and the WB step in as the chief economic actors and remodel the economies of developing countries on neoliberal lines [36].

There are also historical reasons for developing countries to pay heed to IMF-WB prescriptions. Kothari mentions that the ruling elities and the states in the South have a long record of failure and stable decline in terms of alternative development strategy formulation and nation-building.[37] After the disintegration of colonialism and local independence, there was no effort to design an alternative development strategy in tandem with local needs and priorities and thus to achieve national self-sufficiency.

Suffering from a lack of self-confidence, the ruling elites, on the contrary, allied themselves with their counterparts in the West. Also, the fear of internal dissent and challenge motivated the elites to keep their relations with the Western elites in tact.

---

[36] Ute Pieper and Lance Taylor (1998), *The Revival of the Neoliberal Creed: the IMF, the World Bank and Inequality in a Globalized Economy* , Cambridge: Cambridge University Press Ch.2.

[37] Rajni Kothani (1995) , "Under Globalization Will the Nation State Hold", *Economic and Political Weekly 1593.*

The preservation of old social and economic structures have over the years failed to generate sufficient growth and bring about economic self-sufficiency to reduce poverty and social inequalities. Under globalization structural imbalance at the global level and the old-fashioned social and economic structures in developing countries interact to aggravate the poverty situation further.

The ruling elites in developing countries involved in business and entrepreneurial class, bureaucracy, high skilled labor and professionals cooperate with globalization forces exactly because of the redeeming qualities globalization promises for them.

Business and entrepreneurial class, in particular, enjoy the benefits of trade and capital liberalization, deregulation and privatization of national industries. This class is the purchaser of national industrial units, banks and corporations under the regime of privatization. The opening of national economies to foreign investment and liberalization of trade have helped them to establish growing linkages with international capitalist class and promote a kind of symbiotic relationship between them.

The working class and poor people are hit hard by the impact of globalization. The members of low skilled labor class who sell their labor to earn their bread have less appeal for the high-tech and capital-intensive production systems. Low technology industries and small family businesses also suffer, and are gradually collapsing, in the face of the flood of new imports under trade liberalization schemes. This is contributing to an overall increase in the rate of poverty.

On the whole, the symbiotic relationships between local and transnational capitalist classes have failed to register any notable success in most developing countries except bringing about economic fortune for few dominant social forces

At the country level, liberalization of trade, deregulation and privatization of national economies in Sub-Saharan Africa and South Asia have produced negative results for many and positive consequences for few countries.[38]

The growth rates of Countries like Algeria, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Togo and Tunisia have declined in the 1980s and 1990s compared to the 1970s. Only Benin, Ghana and Mauritania were able to improve their growth rates in the 1980s and 1990s. In South Asia, Bangladesh and Pakistan did not achieve a rising trend in economic growth

---

[38] S.M. Wangle and Flora Musonda (1998), *The Impact of Globalization on Africa in Bhalla, A.S., Globalization, Growth and Marginalization* , London and New York: Macmillan Press Ltd. Inc., p.87.

in the 1980s while India’s and Sri Lanka’s performance was relatively modest.

Moreover, efforts by these countries to seek integration into the global economy were not matched by safeguards for the social left-outs and initiatives to reduce income inequalities to ensure social justice.

2.5.Income Gap

The large income gap between rich countries – the North – and poor countries – the South – is one of the most dramatic characters of the international community. Casual observation alone suggests the presence of big differences in living standards across countries. In particular, there is a sharp divide between industrialized countries – the West and Japan – and developing countries. The economic difference between the two groups of countries is not merely a difference of wealth. A number of common structural characteristics, such as underdeveloped financial markets, poor infrastructure and a more pervasive role of the government in the economy, distinguish the former from the latter. Furthermore, the rich country-poor country dichotomy penetrates into the social and political realms as well, with the result that rich countries generally enjoy greater political stability and social peace.

Just as inequality among the citizens of a country increases tension and conflict, inequality among the different countries of the world constitutes an obstacle to international harmony and peace. On many international issues, developing and developed countries form rival blocs. In today's world of ever-increasing globalization, the poverty of the South is no longer something the North can view aloofly. The resentment has its roots in a widely held belief, formalized in dependency theory, that the unequal economic relationship between the North and the South is responsible for the plight of the latter and has led to calls for a New International Economic Order. While the large disparities in the international distribution of income are unapproved ,there are purely economic considerations that render them undesirable as well.

Several studies have examined the relationship between income inequality and economic growth. Recent papers by Perotti[39] and Deininger and Squire[40] find that countries with greater inequality generally experience slower growth. It is quite possible that reducing global inequality would also promote global growth.

---

[39] R. Perotti (1996), " Growth, Income Distribution ana Democracy : What the Data Say" , *Journal of Economic Growth* Vol.1, No.2, pp.149-187.

[40] K. Deininger and L. Squire (1996), *A New Data Set Measuring Income Inequality*, World Bank Economic Review,Vol.10,No.1, pp.78-82.

2.5.1. Empirical Analysis Throgh Relevant Data

A way to investigate convergence is to observe the evidence on international capital flows. In particular, economic theory suggests that capital will flow from rich countries to poor countries. This is because poor countries are relatively poorly endowed with capital and capital is subject to diminishing marginal productivity, which means that the returns to capital will be higher in the latter. In economic theory, those capital flows are the driving force behind economic convergence. Lucas has discovered that empirical evidence fails to support capital flows of the magnitude implied by economic theory from rich countries to poor country.[41]

[41] R. Lucas (1990), " Why doesn't capital flow from Rich to Poor Countries?", *American Economic Review*,Vol.80,pp. 92-96.

2.5.2. Data

The source of our data for an empirical analysis of the issue at hand will be the Penn World Tables (henceforth PWT),[42] PWT's great advantage is that all the economic variables are expressed in a common set of prices and in a common currency. The development of this database has allowed us to make more meaningful comparisons of variables across countries and has, in fact, served as a catalyst in empirical research on analysis of the international pattern of economic growth.

Table 1: Trends in Global Population, Income and Per Capita Income

Year	Population (in millions)	Total Income (in billion US$)	Per Capita Income (in US $)
1980	4,301	16,313	3,793
1985	4,685	18,731	3,998
1990	5,105	21,884	4,287
1995	5,527	24,628	4,456

I define the remaining countries in my sample, including the six members of OECD developed countries, to be the 23 members of OECD

[42] R. Summer and A. Heston (1991), "The Penn World Table : An Expanded Set of International Comparisons", *Quarterly Journal of Economics*,Vol.11,No.3, pp:3-18.

other than Mexico, Turkey, South Korea, Poland, Hungary and the Czech Republic.

Table 1 shows the trends in the global population, global income and global per capita income implied by our data. I obtain global population and global income by summing up the populations and national incomes of all countries in data set. I derive per capita income by dividing global income by global population.

2.5.3. Empirical Evidence

i) Shares of global population and global income

The second and third columns in Table 2 below show trends in the shares of the global population living in developed and developing countries respectively.

Since developing countries generally have higher rates of population growth than developed countries, I expect the proportion of the global population living in developing countries to steadily rise although there is some migration from developing to developed countries. The share of developing countries rises from around 82% in 1980 to over 85% in 1995 while the share of developed countries falls in that proportion.

Table 2: Shares of Global Population and Global Income

Year	South Population	North Population	South İncome	North Income
1990	0,8470	0,1530	0,4686	0,5314
1991	0,8484	0,1516	0,4717	0,5283
1992	0,8501	0,1499	0,4756	0,5244
1993	0,8513	0,1487	0,4771	0,5229
1994	0,8526	0,1474	0,4793	0,5207
1995	0,8539	0,1461	0,4821	0,5179

The fourth and fifth columns in Table 2 show the trends in the shares of the global income going to developed and developing countries respectively. What is relevant for our purposes is per capita income rather than total income.

ii) Average per capita income of South countries versus North countries (in US$)

Table 3: Average per capita income of South countries versus North countries

Year	South	North	Difference	Ratio
1980	2800	10830	8030	3.868
1981	2823	10869	8046	3.850
1982	2775	10854	8079	3.911
1983	2742	11021	8279	4.019
1984	2745	11387	8642	4.148
1985	2770	11681	8911	4.217
1986	2805	11984	9179	4.272
1987	2842	12301	9459	4.328
1989	2922	13069	10147	4.473
1990	2955	13274	10319	4.492
1991	2965	13214	10249	4.457
1992	3031	13241	1021	4.369
1993	3077	13444	10367	4.369
1994	3127	13653	10526	4.366
1995	3182	13865	10683	4.357

The second and third columns in Table 3 show the average per capita incomes of developing and developed countries respectively. I sum up the per capita incomes of all the countries in each bloc and divide this sum to the number of countries.

The absolute gap between per capita income level in the North and the South rises $10,683 dollars in 1995 while the ratio of the Northern average is $4.357 in 1995.

iii) Average per capita income of North versus South (in US$)

Table 4: Average per capita income of South countries versus North countries

Year	**South**	**North**	**Difference**	**Ratio**
1980	2092	12035	9943	5.753
1981	2107	12125	10018	5.755
1982	2108	11978	9870	5.682
1983	2134	12235	10101	5.733
1984	2190	12752	10562	5.823
1985	2245	13082	10837	5.827
1986	2269	13377	11108	5.896
1987	2296	13736	11440	5.983

Year	South	North	Difference	Ratio
1988	2360	14279	11919	6.050
1989	2391	14686	12295	6.142
1990	2372	14886	12514	6.276
1991	2366	14822	12456	6.265
1992	2396	14980	12584	6.252
1993	2429	15246	12817	6.277
1994	2469	15517	13048	6.285
1995	2516	15792	13276	6.277

The second and third columns in Table 4 show the average per capita income of the South as a whole and the North as a whole respectively. I sum up the total incomes of all the countries in each bloc and divide the sum by the total population in each bloc.

The absolute gap in per capita income between the North and South rises from \$9,943 in 1980 to \$13,276 in 1995 while the ratio of the Northern average to the Southern average rises from \$5.753 in 1980 to \$6.277 in 1995. Again, there is no indication that the South is catching up with the North.

iv) Growth rates in the per capita income of the North versus the South

Table 5: Annual growth rates of the per capita income of the North versus the South

Period	South	North
1980 – 1990	0.0054	0.0206
1990 – 1995	0.0149	0.0088
1960 – 1995	0.0228	0.0250

The average annual growth rates of per capita income in the North and the South reported in Table 5 above is based on Table 4. That is, growth rates pertain to the North as a whole and the South as a whole respectively, rather than the average of North and South countries.

iv) Percentile shares of global income

Table 6: Shares of Global Income by Twenty Percentiles (%)

Year	q1	q2	q3	q4	q5
1980	4.21(797)	5.09(965)	6.78(1286)	23.8(4521)	60.1(11393)
1985	4.46(892)	5.95(1189)	7.17(1434)	22.1(4411)	60.4(12065)
1990	4.63(992)	6.08(1303)	7.09(1520)	20.4(4377)	61.8(13241)
1995	4.60(1024)	7.15(1594)	8.69(1936)	18.1(4025)	61.5(13702)

In Table 6, q1 and q5 represent the percentage share of global income accruing to the fifth of humanity living in the world's poorest and richest countries respectively, with q1, q2 and q3 representing successively richer percentiles. The numbers inside the parenthesis indicate the average per capita income of each percentile.

Table 7: The ratio of the average per capita income of twenty percentiles and the average per capita income of the North

Year	**q1**	**q2**	**q3**	**q4**
1980	15.1	12.47	9.36	2.66
1985	14.67	11.0	9.12	2.97
1990	15.01	11.42	9.79	3.40
1995	13.54	8.70	7.16	3.44

Table 7 above shows the ratios of the average per capita income in the bottom for twenty percentiles to the average per capita income of the North. For example, the second column in Table 7 shows the ratio of the per capita income of the poorest twenty percentile and the per capita income of the North.

In other words, it appears that even developing countries which are middle-income and upper middle-income have failed to catch up with developed countries.Finally, my examination of data has shown that large income gap between the North and the South has not narrowed since 1990 . If anything, the gap has risen slightly.

While the remarkable and well-publicized success of a few developing economies, concentrated in East Asia, during the period may have produced an illusion of narrowing, such success has been a exception rather than the rule in the South.

The result shows that the highly unequal global distribution of income is likely to persist for some time, along with the international tension and polarization it entails. Financial instability in developing countries, as evidenced recently in East Asia, Russia and Brazil, provides further grounds for pessimism.

CHAPTER THREE

FINANCIAL ASPECTS OF ECONOMIC GLOBALIZATION

3.1. Financial Globalization: Defining the issue

By the end of the 20^{th} century economic globalization has been a strong regulating force in world trade. The trend of economic globalization is still going upward, though people define and understand it very differently, as I have explained in the first chapter of my thesis.

In the context of economic globalization, I want to note the IMF reports in May 1997 in which globalization refers to commodity and service trade across borders, increase in scale and forms of world capital flows, quick spread of technologies and the integration trend of world economy in terms of production, distribution and consumption. Economic globalization has been established on the basis of global common market. Economic globalization is not a new phenomenon, but it was only after the end of Cold War that it gained its momentum of rapid development and has become a major trend in world economy.

However, developed countries have dominated economic globalization since its beginning. They have gained a strong relative advantage in the field of goods, capitals and monopolized most of the world market. The fact that %79 of the world economy's 500 largest TNCs are headquartered in West European countries and the USA shows it more clearly that Europe and the USA have still been dominating the world economy.[43]

Financial globalization takes into account the relationship between money, asset, factor price flexibility and regulatory institutions. Developed countries can thus more easily integrate into international currency, flexible exchange rejimes and sound regulatory environments, but developing countries cannot. Moreover, emerging markets that have embraced financial globalization have been severely bruished by financial crises in many cases. The crises in Latin America in the 1980s, Venezuela in 1994, Mexico in 1994-1995, East Asia in 1997-98, Russia in 1998, Brazil in 1999, Turkey in 2001 and Argentina in 2001-02 are examples to this.

Although financial globalization alone cannot explain rising incidence of twin (curreny and banking) financial crises and even triple (currency, banking and debt crises) such as Argentina. The current wave of financial globalization has been, especially for periphery, punctuated by painful episodes of capital flow reversals. The integration of the domestic financial systems from middle-income countries into the world's financial markets has

[43] Arif Derick (1993), *World System Analysis and Global Capitalism: A criticism on Modernization Theories*, Finance and Management Press, p. 226.

not led to the materialization of such promised benefits as truly counter-cyclical monetary policy, successfull smoothing, deepening and diversification of their domestic financial markets, noticeable reduction in the cost of capital and significant availability of long-duration financial contracts denominated in the domestic currency.[44]

In all, it is hard to escape the conclusion that Bretton Woods wave of financial globalization has not worked as advertised for the periphery. I will now pay some more attention to this idea and compare the situation in the developed and developing countries. In this context, I will ask the questions how developed countries interact to empower financial globalization and how developing countries are handicaped to integrate into the international financial system.

[44] Maurice Obstfeld (1998), "The Global Capital Market", *Journal Of Economic Perspectives,*American Economic Association,Vol. 12,No.4, pp.9-30.

3.2. Comparing The Economic Differences

Three handicaps of developing countries are a) weak currency, b) limited exchange rate flexibility and c) weak regulatory environment. Currency must become a reliable store of value.[45] Weak currency leads to financial fragility since, as markets for long duration, domestic currency financial assets are non-existent, currency or maturity mismatches in the domestic financial system are inevitable. But developed countries have international currency, which is accepted as a store of value both at home and abroad.

Secondly developing countries have the fear of floating financial markets. Even those economies that declare to have a flexible exchange rate reveal a preference for exchange rate stability by relying on interest rate policy and foreign interventions to limit fluctuations in the exchange rate. Central bank's capacity to be a borrower of last resort is curtailed by the procyclicality of international capital markets vis-a-vis weak currency countries.[46] But developed countries have a flexible exchange rate. Its currency floats relatively freely compared to other currencies, without the need to hold large amounts of reserves of international currency in an attempt to give credibility to the float. The effectiveness of flexible exchange

[45] http://www.umass.edu/peri/pdfs/wp1.pdf (28 August 2005)
[46]Guillermo Calvo (2002), "Fear of Flooting", *Quarterly Journal of Economics*,Vol.12,No.4, pp.1-19.

rate system is institutionally underpinned by a reputable central bank that pursues price stability.

Lastly, developing countries have weak fiscal, monetary and regulatory institutions, reflecting deeper weaknesses in overall governance and democratic institutions. Central Banks are subject to political maneuvering. But the developed ones minimize principal agent problems that are inherent to financial systems. They do this by ensuring successfull contact which is underpinned by dear shareholder and creditor rights and reflects the operation of the rule of law backed by a trustworthy judiciary.

The above given elements appear as the risks for developing countries for integration into international financial markets that have fragile macro financial conditions. But developed countries can integrate successfully into international financial markets because of their ability to protect against the risks of financial globalization while maximizing its benefits.

David Dollar and Aart Kraay have examined the impact of growth enhancing policies on the income of the bottom %20.[47] There is a one-to-one relationship between the growth rate of income of the poor and per capita income. In other words, percentage changes in incomes of the poor

---

[47] David Dolar and Aart Kraay (June 2001) ; "Trade, Growth ,Poverty" , *Development Research Group, The World Bank* ,Vol.38,No.3, pp.31-39.

on average are equal to percentage changes in average incomes. One way of interpreting these results is that they are equaivalent to the finding that changes in the share of income accruing to the poorest fifth of society are not systematically associated with the growth rate.

The growth rate in the income of the poor is less than the per capita GDP growth rate. According to David Dollar and Aart Kraay, trade openness leads to a decline in inequality and poverty between developed and developing countries. But average annual growth rate figures indicate the opposite.

3.3 Transnational Corporations And Foreign Investment

Foreign direct investment is another indicator of increasing economic globalization. Direct investment is an investment by one firm for another with the intention of gaining a degree of control over that firm's operations. FDI is direct investment which occurs across national boundaries when a firm in one country buys a controlling share of a firm in another country or where a firm sets up a branch or subsidiary in another country.[48]

The international flow of financial resources are seen in two main forms:

a) private foreign investments mostly in as FDIs by large multinational corporations and financial capital flows by private international banks

b) public development assistance programs sustained by national goverments and multinational donar agencies.

Portfolio investment differs from FDI in the sense that it refers to the purchasing of firms from stock markets in other countries purely for financial reasons. Portfolio investments are not oriented to gain the control of individual firms. FDI is only one of TNC activities.

---

[48] Martin Feldstein (2000), "Aspect of Global Economic Intepration: Outlook for the Future", *National Bureau of Economic Research Working Paper*, pp.45-46.

TNCs are global profit-seeking organisations with their own objectives and strategies and political support of the advanced countries. Their main objective is to maximise their returns on capital. TNCs may be defined as "firms investing in more than one country and supplying more than financial capital such as management, technology or marketing expertise."[49]

TNCs have the ability to view the world as a single economic unit and manage operations on a global scale. In recent years, FDI and foreign portfolio investments to less developed countries have risen. For example, the average annual net inflow of FDI to LDCs was $35 billion in 1991, but it increased to $43 billion in 1992.[50]

The largest TNCs have many foreign branches and overseas affiliates. Nearly 200 have subsidiaries in 20 or more countries. Of the 10 largest TNCs eight are based in USA and US firms exercise control over about 30 % of all foreign affiliates. The total value of TNCs foreign investment is in excess of $ 500 billion with over 80 % of this sum owned by firms in the four countries.[51]

---

[49] J. Wess (1991), *Industry in Developing Countries; Theory, Policy and Evidence* ,London:Princeton Universty Pres, p. 21.

[50]Harri Ramcharran (1999), "Internatıonal Bank Lending to Developing Countries: An Empirical Analysis of the impact of country risk", *Multionational Business Review*,Vol.34,No.3 Spring, pp.3-4.

[51] Sanjaya Lall (1974), "Less-developed countries and private foreign direct investment.", *World Affairs* ,Vol.9,No.2,pp.24-52.

3.4. Arguments Against Private Foreign Investment

Although TNCs provide capital, they may lower domestic savings and investment rates as well by stifling competition through exclusive production agreements with host goverments, failing to reinvest much of their profits, generating domestic incomes for those groups with lower savings propensities, inhibiting the expansion of indigeneous firms that might supply them with intermediate products by importing these goods from overseas affiliates and imposing high interest rates on capitals borrowed by host goverments.[52]

Although the initial impact of TNC investment is seen as an improvement in the balance position of the recipient nation, its long run impact may be the reduction foreign exchange earnings in both current and capital accounts. While TNCs do contribute to the welfare of the people in form of corporate taxes, their contribution is considerably less than what it should be because of liberal tax concessions, excessive investment allowances, disguised public subsidies and tariff protections provided by the host government. TNCs may have little positive impact on developing sources.

---

[52] Ahmed, M. and Gooptu, S. (1993), "*Portfolio Investment Flows to Developing Countries, Finance and Development*", University of Connecticut,Vol.2,No.2, pp.298-300.

Differently put, TNC activities reinforce dualistic economic structure and income inequalities. They tend to promote the interests of the small number of well paid modern-sector workers while exacerbating the imbalance between rural and urban economic opportunities. They produce inappropriate products, consumption patterns. They use their economic power to influence government policies.

They are able to extract sizable economic and political concessions from competing LDC governments in forms of excessive protection, tax rebates, investment allowances and the cheap provision of factory sites and social services.[53] As a result, the private profit of TNCs may far exceed their social benefits. We can summarize the debate about multinationals in six key points.

1. International capital movements
2. Displacement of indigenous production
3. Extent of technology transfer
4. Patterns of consuption
5. Social structure and stratification
6. Income distribution and dualistic development

[53] Hüseyin Şen (1998), "Different Arguments for and against the role and impact of foreign investment on the development potentials of developing countries: An Overview", Dokuz Eylül University, *Journal Of Economics and Administrative Sciences*, Vol: 13,No.1, pp.28-29.

CHAPTER FOUR

ASPECTS OF INTERNATIONAL CAPITAL MOVEMENTS IN THE ERA OF GLOBALIZATION

4.1. Transnational Corporations

Globalization is the new economic order and nation states are no longer significant actors or meaningful economic units. The world is becoming increasingly more integrated thanks to the production, marketting and distribution networks of transnational corporations (TNCs).

Transnational corporations are the main actor in new international economic order. I tried to define TNCs in a broad sense to better understand the diversity and complexity of transnational networks: A transnational corporation is a firm that has the power to coordinate and control operations in more than one country, even if it does not own them. It is "the end of geography" and "the death of distance." These two phrases resorate much of the globalization literature. Capital has become "hyper-mobile" and no longer tied to "place". In other words, economic activity is becoming "de-territorialized" or "disembedded." The sociologist Manuel Castells argue that the forces of globalization especially driven by the new information technologies are replacing “space of places” with a “space of flows”.[54]

The world is both a “space of places” and a “space of flows”. Production networks don’t just float freely in a placeless world. An especially important bounded territorial form in which production networks are embedded is that of the state.

All the elements in the production network are regulated within some kind of political structure whose basic unit is the national state, but which also includes such supranational institutions as the International Monetary Fund (IMF) and the World Trade Organization (WTO), regional economic groupings such as the European Union.

In other words, the new international economy is being structured and restructured not by the actions of either firms or states alone, but by dynamic interactions between these two sets of institutions. Since the beginning of the emergence of a capitalist market economy, the world economy is shaped around a core and periphery.

[54] Manuel Castells,(1996),“The Information Age:Economy, Society and Culture”,Vol.1,No.2, Berkeley: University of CaliforniaPress.

Eghosa Oshagae argues that multinational corporations has a dominant impact on the economies of developing economies.[55] Similarly, Ankie Hoogvelt criticizes IMF because it organizes international "production and trade in the periphery to the benefit of the core of the world capitalist system."[56]

---

[55] Eghosa Oshagae (1999), *The post colonial African state and its problems*, in P.Nel and McGowan (eds.), Power, Wealth and Global Order: An Internatıonal Relations Textbook for Africa , Uni Of Cape Town Pres p.187.

[56] Ankie Hoogvelt (2001) *Globalization and the Postcolonial Wold: The New Political Economy of Development* , 2nd end. , Hampshire, Palgrave, p.45.

4.2. Core – Periphery and Global Institutions Role

In this section, I will try to focus on the process of economic restructuring imposed by international creditors on developing countries. Macro-economic managements adopted at national and international levels play a crucial role in the emergence of a new global economic order. The search for maximum profit misleads improveshment of millions of people.

In my view, IMF and the World Bank are regulatory institutions that operate within a capitalist system and respond to dominant economic and financial interests. IMF reforms have played a decisive role in "regulating labour costs" in a large number of countries. Yet this "minimalization of labour costs" undermines the expansion of consumer markets, impoverishment of large sectors of the world population under the brunt of macro economic reforms has been conducive to a dramatic contraction of purchasing power.

The global economic system is characterized by two forces;[57] the consolidation of a global cheap labour economy and the search of new consumer markets. G7 macro-economic policy has supported a wave of corporate mergers and acquisitions as well as a planned bankruptcy of small

[57] http://economist.com (19 August 2005)

and medium-sized enterprises. In return, multinational companies have taken control of local level markets through the system of corporate franchising.[58] Free trade and economic integration provide greater mobility to the global enterprise while at the same time suppressing the movement of small local-level capital. While the periphery went from crisis to crisis, the center remained remarkably stable and prosperous. Being in control of the system has given the center a significant advantage.

The debt burden of developing countries has increased steadily since the early 1980s despite various restructuring and debt conversation schemes put forward by the creditors. In fact, when combined with IMF-World Bank policy based lending (under the structural adjustment programme), these procedures were conducive to enlarging the outstanding debt of developing coutries while ensuring prompt reimbursement of interest payments.

Total long term debt of developing countries stood at approximately $62 billion in 1970. It increased sevenfold in the course of the 1970s to reach $481 billion in 1980. The total debt (including the short-term debt) of developing coutries stood at more than $2 trillion (1996) a 32 fold increase compared to 1970. Under the table source World Bank, World Debt Tables.

[58] Franchise Directory Handbook, Fall 1992.

Table 8: Developing Coutries External Debt (in dollar billions)

Year	Total external debt	Long Term debt	Short Term debt	Use of IMF credit
1980	658	481	164	12
1985	990	809	141	40
1990	1539	1226	278	35
1994	1945	1538	366	41

Table: 9 Third World Countries Debt and Repayment Debt from 1980 to 2001 ($ billion)

Region	1980 Debt	2001 Debt	Between 1980-1999 repayment debt
Latin America	257	787	1.722
East Asia	89	604	1.092
Africa Sahra	61	209	241
Sounth Africa – Middle East	84	197	461
Total	529	1.956	3.748

Source : World Bank 2001-2002

The result of Structural Adjustment programs which are prepared to serve for the solution of debt crisis is further indebtedness. The IMF's economic stabilization package is in theory for the asistance of countries which try to restructure their economies and to initiate a process of economic recovery so that they generate a surplus on their trade balance to pay back the debt. Nontheless, when we consider the fact that measures taken by IMF contribute to an increase in debts of developing countries, we see that exactly the opposite occurs.

Firstly, new loans are granted to pay back the old debts, which leads to an increase in debt stocks. Secondly, trade liberalization policies tend to exacerbate the balance of payments crisis. Domestic production is greatly demaged because of reliance on imports. Furthermore, new quick disbursing loans are granted to enable countries to continue importing goods from the world market. The nature of these loan agreements do not add something positive to real economy because none of the Money received is channelled into investment. The loans could be spent freely on imported commodities including consumer durables and luxury goods.

The result of this process is stagnation of the domestic economy, enlargement of the balance of payments crisis and growth of the debt stock. Thirdly, after the establishment of the World Trade Organization, a much larger share of the import bill is directed to "service" sector. This means that the import bill will increase without a corresponding influx of commodities.

4.3. Dollarization of Prices

While there are sizable variations in the cost of living between developed and developing countries, devaluation is further conducive to the "dolarization" of domestic prices combined with trade liberalisation and the deregulation of domestic commodity markets (under the structural adjustment programme). The domestic prices of basic food staples are increasingly brought up to their world market levels. Although the commodity prices are internationalized and global commodity market is almost fully integrated, the new world economic order functions with a watertight separation between two distinct "labor markets".

In other words, global market is characterized by a duality in terms of the structure of wages and labour costs between rich and poor countries. Whereas prices are unified and brought up to world levels, wages in the Third World and Eastern Europe are 70 times lower than they are in the OECD coutries.There is a high rate of disparity in the distribution of incomes in these countries. In many Third world countries, at least 60 percent of national income is concentrated in the hands of upper 20 percent of the population. In most of the developing coutries charactarized by low and middle income levels, 70 percent of rural households have a per capita income between 10 and 20 percent of the total national income.[59] Disparities

[59] Robert Gilpin (2001), *Global Political Economy* :Understanding the International Economic Order , Princeton :Princeton University Pres, ch. 1.

have widened in the course of the 1990s as a result of "remoulding" of national economies under the structural adjustment programme.

In addition, the end of the Cold War had a profound impact on global distribution of income. Until recently Eastern Europe and the Soviet Union were considered as part of the developed " North" because their levels of material consumption, education, health care, scientific development etc. were broadly comparable to those of OECD countries.

Improverished now as a result of IMF reforms, the countries of the former Soviet bloc are now categorized by the World Bank as "developing economies" alongside the "low and middle income countries" of the Thirld World. The Central Asian republics appear next to Syria, Jordan and Tunusia in the "lower middle income" category, whereas the Russian Federation is next to Brazil with a per capita income of $30,000.[60] This shift in categories reflects the outcome of the Cold War and the process of "thirdworldisation" of Eastern Europe and the former Soviet Union.

---

[60] Edward Luttwak (1999), *Turbo-Capitalism: Winners ana Losers in the Global Economy*, London: Weidenfeld & Nicolson, pp.67-69.

4.4. Financial Instability

The core is the provider of capital and the periphery is the recipient. If the core do not provide capital, the periphery can end up with great economic disruption. The nature of the disruption depends on the form in which capital is provided. If it is in the form of debt instruments or bank credits, it can cause bankruptcies and a subsequent bank crises; if it is in stocks, it can precipitate a stock market crash; if it is in the form of direct investments, it may not be seen readily, but disruption manifests itself only in the absence of new investment.

The disintegration of "the real economy" under the brunt of macro-economic reform is matched by unstable global financial system. A new global financial environment plays an effective role in commercial banking, investment banks or stock brokers. The daily turn-over of foreign exchange transactions is about $2 trillion, out of which only 15 percent corresponds to actual commodity trade and capital flows.[61]

The monetary policy of the center countries is guided by domestic considerations, those of the periphery, on the other hand, are prepared with little or no attention to domestic conditions. In times of uncertainty, capital

---

[61] Stephan Daley (2004), "The Real Economy" , *Economist* , 15 August, pp. 62.

tends to return to its place of origin. That is one reason why disturbances in the global capitalist system tend to have a disproportionally larger effect in the periphery than in the centre.

Policy failure is acknowledged by the IMF and the World Bank:

> Although there have been a number of studies on the subject over the past decade, one cannot say with certainty whether programs have "worked" or not ..... On the basis of existing studies, one certainly cannot say whether the adoption of programs supported by the Fund led to an improvement in inflation and grawth performance. In fact it is often found that programs are associated with a rise in inflation and a fall in the growth rate.[62]

[62] Mohsin Khan (1990), "The Macroeconomic Effects Of Fund Supported Adjustment Programs", *IMF Staff Papers*, Vol. 37, No. 2.

4.5. The Direction of International Capital Flow

In this part , I will focus on the direction of international capital flows. I will use a series of different measures to assess the extent by which money is on net flowing into or out of developing countries, which are:[63]

- According to the most basic measure of capital flows – the current account, money is on net flowing from developing countries to rich countries. Most developing countries are net recipients of capital by this current account measure, but because some developing countries are very large exporters of capital the developing world as a whole is a net exporter of capital.

Several developing countries have current account surpluses – net outflows of money – more than 5 percent of their GDP (the equivalent of $530 billion annually in the United States). On a regional basis, only Latin America and South Asia have current account deficits, although Sub-Saharan Africa would also fall into this category excepting the oil-rich Nigeria.

- Most developing countries have large net outflows of capital income, such as payments of interest and profits, due to past borrowing. The prior lending or investment that was emanated from these payments may have benefited developing countries in previous years, but at

[63] http://www.cepr.net/pages/internationaleconomicissue.htm (2 August 2005)

present the outflows of capital income results in a drain on the resources available to poor countries.

If capital income flows are taken out of the current account measure, the size of the net flow of money from poor countries to rich countries becomes even larger. By this measure, only the South Asia is a net importer of capital, and only marginally. Developing countries which are net importers of capital by the current account measure are in fact exporters by the measure that excludes capital income flows. The fact that these capital income payments are now larger than the inflow of capital from rich nations means that developing nations must consume and invest less than they produce each year.

- Payments for intellectual property claims, such as licensing fees and royalties on patents and copyrights – as well as the difference between the prices of these products that prevails under copyright or patent-protected monopolies, and competitive prices – are a further net outflow from developing nations. While these payments are still relatively small, research from the World Bank indicates that they are likely to grow considerably in the future as a result of the TRIPS agreement.

These payments exist primarily because of a power imbalance between rich countries and poor countries. For example, software, recorded music and video materials can be reproduced at zero cost over the Internet. However, instead of allowing such costless transactions, rich countries are forcing poorer nations to pay fees by insisting that they apply U.S. type copyright or patent protections to intellectual products. With few exceptions, the currently developed countries had not honored other nations' copyrights or patents in the past when they were developing nations.

The fact that capital, by all measures, is flowing on aggregate from poor nations to rich nations contradicts with the way policy makers usually view the world economy. International capital flows are not facilitating for poor countries to finance their development; rather the direction of capital flows leaves them with fewer resources. The situation will get even worse as TRIPS starts to demand larger payments for licensing fees and royalties in future years.

Ironically, countries whose economies have grown most in the last two decades, such as China, South Korea, and Taiwan, are also countries with large current account surpluses. This suggests that flows of capital from rich nations are not necessary for development, even though they may be desirable.

4.6 Specific Issues in International Capital Movements

It is a basic proposition in international finance that the direction of world capital flows should be from the developed nations, where capital is plentiful, to the developing nations, where capital is scarce. In principle, capital flows from rich to poor countries should lead to gains for both sides. Developing nations benefit from obtaining the financing needed to build up their capital stock as well as their physical and social infrastructure, allowing them to be more productive in the future. The developed nations benefit by receiving a higher return on their capital, since the scarcity of capital in poor countries should lead to a higher return on investments in poor countries than could be obtained in rich nations.

In this view, the situation of developing countries is similar to that of college students who are expected to borrow to invest in their future. The lender can benefit by making a loan that gets a solid return and the borrower benefits by being able to finance his or her education.

At a more concrete level, it is widely believed that developing countries need capital inflows to allow their populations to sustain minimal levels of consumption while these countries are devoting resources to building up their stocks of physical and human capital. In other words, capital inflows provide countries with the means to consume and invest more goods and services than they produce. This can allow a country, for example, to pull resources out of agriculture and shift them to investment, with the lost food production offset by increased imports.

However, it turns out that the world is more complicated than simple theory suggests. In fact, most developing nations receive, on net, little or no capital from rich nations, and many are large exporters of capital to the rich nations.

Interestingly, most of the "success" stories, measured by growth in per capita GDP, fall into this category.While this information is well known to economists working on development issues, it runs directly counter to arguments often put forward in policy debates. Relatively few policy makers seem to be aware of the size and direction of capital flows in recent years.

In this part, I tried to analyze of direction of net capital flows with regard to the consequences for developing countries. World Bank data starts with the standard measure of capital flows – the current account – to determine the extent by which developing countries are net borrowers or lenders to the rest of the world. As noted above, several developing countries, especially those in East Asia, are currently lending large amounts of capital to the rest of the world.

In 2000, developing countries have begun to run a current account surplus as a group for the first time in almost a quarter century.[64]

I focuses on two components of the current account balance:

- capital income flows
- intellectual property claims.

The first category includes interest and dividend payments and the latter includes royalty and license fees. Since developing countries tend to have net deficits in both accounts, this implies that they must run large trade surpluses in order achieve current account surpluses.

[64] http:// www.opecfund.org/publications/ar01/economy/htm (26 September 2005)

4.6.1. Current Account Balances

The current account is the basic measure for whether a country is spending more than it earns. It counts on income earnings from merchandise exports, sales of services, wages of citizens working abroad, capital income from the ownership of foreign assets, private remittances such as money sent home to relatives by emigrants, and foreign aid and other government grants. The outflows on the current account balance mirror these inflows (e.g. spending on imports).

TABLE 10: Current Account Balance by Region

Low and Middle Income (LMI) Countries		
Region	**2000 Current Account Balance (Millions $)**	**2000 Current Account Balance(% GDP)**
East Asia & Pacific	55,162	3.5%
Europe & Central Asia	16,221	1.8%
Latin America &Caribbean	-45,470	-2.4%
Middle East & North Africa	23,907	5.0%
South Asia	-6,637	-1.1%
Sub-Saharan Africa	458	0.2%
LMI Countries	43,641	0.8%

Source: World Bank, World Development Indicators. Includes all LMI countries for which the World Bank has current account, net income and GEP figures

If a country has a current account deficit, it must finance it by a capital inflow from abroad. This can take the form of foreign direct investment in plant and equipment; foreign loans to private corporations or the government; or foreign purchase of shares of stock or land. In any case, the existence of a current account deficit requires that foreign capital enter the country in some form in order to pay for the shortfall of earnings from abroad. The reverse is the case for a country with a current account surplus.

Table 10 shows the current account balance for the major regions of the developing world in the year 2000. As observed, except Latin America and South Asia all of the regions had current account surpluses in 2000. Developing countries as a group had a surplus of $43.6 billion in 2000, the first year since 1976 that they had a current account surplus. Though the amount is fairly modest – 0.8 percent of the developing world's GDP – it signals an important shift in the direction of international capital.

The Middle East and North Africa had the largest current account surplus relative to GDP (5.0 percent). This is partly because the price of oil rose significantly in 2000 from extraordinarily low levels in 1999. Since oil exporters in the Middle East and elsewhere had cut back their imports in 1999 to adjust to lower revenues, this meant that when the following year revenues surged unexpectedly, they outpaced spending on imports.

However, the surge in oil prices explains only part of the surplus for many oil exporters, such as Russia, and it cannot explain the large surpluses run by countries like Malaysia and the Philippines, which are not significant oil exporters. After the Middle East, East Asia was the region running the largest current account surplus, with a surplus equal to 3.5 percent of GDP.

Table: 11 The current account balances for a selected list of developing countries, including the largest countries and a representative group of other countries within each region

Country	**2000 Current Account Balance (Millions $)**	**Current Account Balance**	**Net Income**	**Net Royalties and Licensing Fees**
Argentina	-8,970	-8,970	-7,482	-445
Bangladesh	2	2	-221	-4
Brazil	-24,632	-24,632	-17,884	-1,289
Bulgaria	-701	-701	-321	-6
Chile	-991	-991	-2,409	58
China	20,518	20,518	-14,666	-1,201
Egypt,Arab Rep.	-1,171	-1,171	932	-342
Ethiopia	-335	-335	-60	*-10*
Hungary	-1,328	-1,328	-1,574	-146
India	-2,915	-2,915	-3,821	-223
Indonesia	7,985	7,985	-9,073	*-244*
Jordan	59	59	-27	*-14*
Kenya	-238	-238	-133	-70

Country	2000 Current Account Balance (Millions $)	Current Account Balance	Net Income	Net Royalties and Licensing Fees
Nigeria	6,961	6,961	-3,289	*-66*
Pakistan	-2,208	-2,208	-2,018	*-99*
Paraguay	-299	-299	32	200
Philippines	8,459	8,459	3,216	-190
Poland	-9,997	-9,997	-1,461	-520
Russian Federation	42,375	42,375	-10,789	22
Saudi Arabia	14,336	14,336	480	0
South Africa	-575	-575	-3,14	-80
Thailand	9,313	9,313	-1,381	-701
Turkey	-9,819	-9,819	-4,002	*-319*
Vietnam	507	507	-597	*-50*

Country	CA Minus Net Income	CA Minus Net Income and Net Royalties and Licensing Fees
Argentina	-1,488	-1,043
Bangladesh	223	227
Brazil	-6,748	-5,459
Bulgaria	-380	-374
Chile	1,418	1,360
China	35,185	36,385

Country	CA Minus Net Income	CA Minus Net Income and Net Royalties and Licensing Fees
Egypt, Arab Rep.	-2,103	-1,761
Ethiopia	-275	-265
Hungary	246	392
India	906	1,129
Indonesia	17,058	17,302
Jordan	85	99
Kenya	-105	-35
Malaysia	15,923	16,451
Mexico	-4,616	-4,251
Nigeria	10,25	10,316
Pakistan	-190	-91
Paraguay	-331	-532
Philippines	5,243	5,433
Poland	-8,536	-8,016
Russian Federation	53,164	53,142
Saudi Arabia	13,856	13,856
South Africa	2,565	2,645
Thailand	10,694	11,396
Vietnam	1,105	1,155
Turkey	-5,817	-5,498

Country	GDP	2000 Current Account Balance (% GDP)
Argentina	284,346	-3.2%
Bangladesh	47,106	0.0%
Brazil	593,779	-4.1%
Bulgaria	11,995	-5.8%
Chile	70,546	-1.4%
China	1,079,948	1.9%
Egypt,Arab Rep.	98,782	-1.2%
Ethiopia	6,391	-5.2%
Hungary	45,633	-2.9%
India	456,99	-0.6%
Indonesia	152,226	5.2%
Jordan	8,451	0.7%
Kenya	10,357	-2.3%
Malaysia	89,659	9.4%
Mexico	580,122	-3.1%
Nigeria	41,085	16.9%
Pakistan	61,623	-3.6%
Saudi Arabia	173,287	8.3%
South Africa	127,928	-0.4%
Thailand	122,283	7.6%
Turkey	199,267	-4.9%
Vietnam	31,348	1.6%

Table 11 shows the current account balances for a selected list of developing countries, including the largest countries and a representative group of other countries from each region. There is considerable variation among regions. For example, in Sub-Saharan Africa, the current account surplus was primarily a result of Nigeria's $7.0 billion surplus, derived from oil exports. Most of the other countries on the continent ran current account deficits. Similarly, the current account surplus of the Central and Eastern Europe was the result of Russia's huge $42.4 billion surplus.

On the whole, however, it is clear from Tables 10 and 11 that the notion that developing countries are generally recipients of capital flows is no longer accurate.

The developing world as a whole has become a net lender to rich nations, as have most of the biggest developing nations been. While many developing nations do have current account deficits – some of them quite large – this situation is no longer representative of the developing world.

4.6.2. Capital Income Flows

The first part explained the current account balances of developing nations, without considering specific types of income flows. This section focuses on the impact of net capital income flows such as interest and dividend payments.

Generally speaking, net capital income flows tend to be positive when a country is a net creditor and negative when a country is a net debtor, though this isn't always true.[65] Similarly, developing countries became net capital exporters in 2000, although their net asset position remained negative due to former debts and due to rich countries' past investments in developing country assets.

It is so dramatic that while most developing nations face capital income outflows, they must try to have current account surpluses at the same time. Developing countries like Indonesia and Nigeria which make large interest payments on past loans must run even larger trade surpluses in order to achieve current account surpluses. Meanwhile, some countries with current account deficits, such as Chile and Hungary, have deficits only because of interest payments.Table 12 shows the current account balance for each of the regions of the developing world, adjusted for capital income flows. By this measure, every region of the developing world except South

---

[65] http://www.delaplata.net/articles/free_trade. (30 September 2005)

Asia would have a current account surplus in the absence of capital income flows. The developing world as a whole would have a surplus equal to 2.9 absence of such flows.

TABLE 12: Current Account Balance by Region, Adjusted for Net Income

Low and Middle Income (LMI) Countries		
Region	**2000 Current Account Balance Minus Net Income (Millions $)**	**2000 Current Account Balance Minus Net Income (% GDP)**
East Asia & Pacific	85,580	5.5%
Europe & Central Asia	39,355	4.3%
Latin America & Caribbean	5,421	0.3%
Middle East & North Africa	25,181	5.2%
South Asia	-292	0.0%
Sub-Saharan Africa	12,763	4.4%
LMI Countries	168,006	2.9%

Source: World Bank, World Development Indicators. Includes all LMI countries for which the World Bank has current account, net income and GEP figures.

The current account surplus of the East Asia would rise even higher, to 5.5 percent of its GDP, without capital income flew. Latin America would switch from a modest current account deficit to a modest surplus. The largest impact would be on the heavily indebted Sub-Saharan African region, which currently has a current account surplus equal to 0.2 percent of GDP. In the absence of capital income flows, its surplus would be equal to 4.4 percent of GDP.

Table 13 : Current Account Balances for Low and Middle Income Countries

Selected Low and Middle Income (LMI) Countries		
Country	**2000 Current Account Balance Minus Net Income (Millions $)**	**2000 Current Account Balance Minus Net Income (% GDP)**
Argentina	-1,488	-0.5%
Bangladesh	223	0.5%
Brazil	-6,748	-1.1%
Bulgaria	-380	-3.2%
Chile	1,418	2.0%
China	35,185	3.3%
Egypt, Arab Rep.	-2,103	-2.1%
Ethiopia	-275	-4.3%
Hungary	246	0.5%
India	906	0.2%
Indonesia	17,058	11.2%
Jordan	85	1.0%
Kenya	-105	-1.0%
Malaysia	15,923	17.8%
Mexico	-4,616	-0.8%
Nigeria	10,250	24.9%
Pakistan	-190	-0.3%

Country	2000 Current Account Balance Minus Net Income (Millions $)	2000 Current Account Balance Minus Net Income (% GDP)
Paraguay	-331	-4.4%
Philippines	5,243	7.0%
Poland	-8,536	-5.4%
Russian Federation	53,164	20.5%
Saudi Arabia	13,856	8.0%
South Africa	2,565	2.0%
Thailand	10,694	8.7%

As Tables 12 and 13 make it clear, most of the developing countries that are borrowing money from rich nations would not need to borrow if they did not have to make payments on past borrowing. Table 13 shows adjusted current account balances for the same list of countries that appeared in Table 11. In all except four countries (Egypt, Paraguay, the Philippines, and Saudi Arabia), the surplus would be larger, or the deficit smaller, in the absence of capital income flows.

4.6.3. International Property Claims

Another cause of economic drain in developing countries is intellectual property claims. These include such payments as royalty and license fees associated with copyrights and patents, and the difference between the prices of these products that prevails under copyright or patent-protected monopolies, and competitive prices. These payments have greatly increased in recent years due to the gradual implementation of the World Trade Organization (WTO) of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).[66]

TRIPS requires developing countries to set minimum standards on international property protections. Since developing nations are net importers of items protected by patents and copyrights, TRIPS will lead to a net outflow of money from developing to developed countries.The economic rationale for intellectual property protections is that they provide incentives for innovation and creative work.

However, from the standpoint of developing countries, these laws can be viewed as arbitrary restrictions, imposed by rich nations, on the flow of knowledge and intellectual products. In principle, once knowledge has come into existence it can be freely used anywhere in the world. Rich nations have created a set of intellectual property protections that allow them to extract

[66] http://www.wto.org/english/tratop_e/trips_e.htm (12 September 2005)

money for the use of this knowledge. The specific nature of these rules is arbitrary in the sense that they could either be eliminated all together or alternatively made even more restrictive (e.g. indefinite patent lives). It is worth noting that the United States did not generally respect foreign patents and copyrights until the latter part of the 19th century, and the practice of applying patent and copyright protection across national borders is a relatively new practice even for rich nations.[67]

Far from resulting from market forces, patents and copyrights are essentially state-sanctioned monopolies. Microsoft, for example, relies on its legal ability to prevent unauthorized users from copying its programs in order to earn licensing fees. If it lacked this legal authority, it would collect no money from the sale or licensing of its software, which can be copied at zero cost.

The same applies to companies like Disney and other owners of copyrighted material, such as books and recorded music or movies. In addition, there are a number of products subject to patent protection (pharmaceuticals being the most obvious example), in which a large part of the cost is attributable to the enforcement of the patent, not the cost of producing the product.

[67] K.M., Chang, (2002), "*The efect of hold timeon fatique crack growth behaviors of waspaloy alloy at elevated temparature*",Materials Science & Engineering A,Vol.341,No.1, pp.1-8.

The fact that the rich nations were able to impose strong copyright and patent protection on developing nations through TRIPS were not the result of any economic analysis that showed that this protection was optimal either for developing countries or the world economy as a whole and in fact no economic analysis of this issue even existed at the time. The provisions of TRIPS simply reflect the fact that rich nations were strong enough to force developing nations to agree to respect their patents and copyrights.

In effect, the rich nations were strong enough to force developing nations to pay for things they could otherwise get for free. Returning to the student analogy, TRIPS can be viewed as comparable to charging students fees for reading library books, or even using ideas from these books in their papers and exams. These fees make the students worse off – since previously they could use the books, and the ideas in them, at no cost.

TABLE 14. Current Account Balance, Adjusted for Net Income and Intellectual Property Claims

Selected Low and Middle Income (LMI) Countries		
Country	**2000 Current Account Balance Minus Net Income and Royalty & License Fees (Millions $)**	**2000 Current Account Balance Minus Net Income and Royalty & License Fees (% GDP)**
Argentina	-1,043	-0.4%
Bangladesh	227	0.5%
Brazil	-5,459	-0.9%
Bulgaria	-374	-3.1%

Country	2000 Current Account Balance Minus Net Income and Royalty & License Fees (Millions $)	2000 Current Account Balance Minus Net Income and Royalty & License Fees (% GDP)
Chile	1,360	1.9%
China	36,385	3.4%
Egypt, Arab Rep.	-1,761	-1.8%
Ethiopia	..	..
Hungary	392	0.9%
India	1,129	0.2%
Indonesia	..	..
Jordan	..	..
Kenya	-35	-0.3%
Malaysia	16,451	18.3%
Mexico	-4,251	-0.7%
Nigeria	..	..
Pakistan	..	..
Paraguay	-532	-7.1%
Philippines	5,433	7.3%
Poland	-8,016	-5.1%
Russian Federation	53,142	20.5%
Saudi Arabia	13,856	8.0%

Since intellectual property claims can be viewed as arbitrary transfers from developing nations to rich nations, it is interesting to see how capital flows have been affected by intellectual property claims in recent years.

Table 14 shows the current account balances for our sample of developing countries, after subtracting both capital income flows, as described in the prior section, and net royalty and license fees. It is important to keep in mind that these World Bank figures for royalty and license fees substantially understate the actual cost of intellectual property claims because they do not include payments for intellectual property embedded in the prices of traded goods such as recorded music or movies, software installed in computers, or prescription drugs. The data is also of poor quality, with missing data for over half of developing countries.

CONCLUSION

Foreign Direct Investment is only one measure of TNCs activities. TNCs are capital oriented enterprises and according to basic rules of capitalism they seek profit. Business firms may as well have a variety of motives other than profit, such as increasing their share of a market, becoming the industry leader. The major drive is therefore to gain profit in a global level. Profit is the difference between revenue which a firm receives from selling its products and the production and distribution costs of the goods and services: Profit=Revenue-cost. Profit can be increased either by raising revenue or reducing cost or by the combination of the two. Transnationalization of a firm's operations may be motivated by either or both of them. The process is a totaly logical extension of the firm's normal mode of expansion from local to regional, and then to global.

Capitalist market economy is an intense competitive economy. One firm's profit may be another firm's loss unless the whole system is growing sufficiently to permit all firms to make a profit. Although the world economy continues to be dominated by a small group of economies of scale, manufacturing production and trade are no longer an exclusive international trade activity. Although a handful of core economies still dominates international trade flows, East Asian developing countries have also been playing a major role in new world trade.

Finally, I put forward my critiques about the inherent instability and injustice of the global capitalist economic system. I argue that highly internationalized present world economy is not unprecedentedly perfect: it is the product of a number of distinct conjunctures or states of the international economy. International economy is *less* open and equally integrated.

Poverty emerges as a structural outcome in developing countries from this situation. The current global economic structure is not something totally new under neoliberal economic globalization; what is new is the advent of TNCs as a powerful economic force and the imposition of a new capital accumulation regime well-orchestrated by the developed countries.

The argument here is that Structural Adjestment Programmes are not primarily meant to promote economic growth; rather they are the mechanisms designed to facilitate capital accumulation by transnational capital. And whatever the benefits that SAPs bring to developing countries under neoliberal globalization, they are in fact capitalized by a few dominant social forces to the detriment of the poor. The functional mechanisms of the structural composition of the global economy under neoliberalism ensures the production of poverty on a perpetual basis and are unlikely to contribute to a decline in the rate of poverty.

Genuinely transnational companies appear to be rare. Capital movements are not producing a massive shift of investment and employment from developed to developing countries. Rather, foreign direct investment is concentrated in the developed industrial economies and the Third World remains marginal in both investment and trade, a small minority of newly industrializing countries apart.

Great Power struggles have reshaped interaction of economic relations and politics. The world has entered a period of profound imbalance in which no individual state can resist the power of global financial markets and there are practically no institutions for rule making on an international scale. Collective decision-making mechanisms for the global economy simply do not exist.

BIBLIOGRAPHY

Adams,Francis (1997), *Uruguay Round Reforms and the Developing World*, Boston: Kluwer Academic Publishers.

Albrow, Martin (1988) , *The Global Age* , Boston Unwin Hyman Press.

Bauman, Zygmunt (1995), *Life in Fragments* ,Cambridge Mass.: Blackwell Publishers.

Beck, Ulrich (2000), "What is Globalization?", *Polity Press .*

Belek, İlker (1999), *Postkapitalist Paradigmalar*, İstanbul: Sorun Yayınları.

Best, Steven and Douglas Kellner,(2001), *The Postmodern Adventure,* New York :The Guilfort Pres.

Bragwati ,Jagdish (1994), "Free Trade : Old and New Challenges" *The Economic Journal*, Vol.200,No.1, pp. 60-65.

Broad, Robin and John Cavanagh (2002), *Global Backlash: Citizen Initiatives to Counter Corporate led Globalization* , Lanham: Rowman and Littlefield Publishers,Inc.

Calvo, Guillermo (2000), "Fear of Flooting", *Quarterly Journal of Economics*,c. Vol.12, no.4, pp. 1-63

Castells, Manuel (1996), *The Information Age: Economy, Society and Culture* , Volume 1,No.2, Berkeley*:* University of California Press.

Chang, K.M. (2002), "The efect of hold timeon fatique crack growth behaviors of waspaloy alloy at elevated temparature" ,*Materials Science & Engineering A* ,Vol.341, No.1 , pp.1-8.

Choussudovsky, Michel (2000), *The Globalization of Poverty: Impacts of IMF AND World Bank Reforms* , London and New Jersey: Zed Boks Ltd. and Third World Network.

Cornia, Giovanni Andrea ana Nguyuru HI Lipumba, (1992), "Liberalization of Financial Markets", *Journal of Political Economy*, Vol.100, No.2 , pp. 223-251.

Daley, Stephan (2004), "The Real Economy" , *Economist*, 15 August.

Deininger, K. and Squire ,L. (1996), A New Data Set Measuring Income Inequality, *World Bank Economic Review* ,Vol.10, No:1, pp.78-82.

Derick, Arif (1993), *World System Analysis and Global Capitalism: A Criticism on Modernization Theories*, Finance and Management Press.

Dolar, David and Kraay Aart (June 2001) ; "Trade, Growth ,Poverty" , Development Research Group, *The World Bank* , Vol.38, No.3,pp. 31-39.

Doyle, Michael W. (1999), *Global Economic Inequalities: A Growing Moral Gap*,in Wapner,Lanham Publishers.

Durfee, Mary and James Rosenau (1996), “Playing Catch-up.:Internatıonal Relations Theory and Poverty” , *Millennium Journal* , Vol.25, No.3., pp.67-69.

Feldstein, Martin (2000), “Aspect of Global Economic Intepration: Outlook for the Future”, *National Bureau of Economic Research Working Paper*, pp.45-46.

Figini, Paolo and E. Santerelli (2005), “ Openness, Economic Reforms and Poverty: Globalization in the Developing Countries” , Journal of Developing Areas, Vol.6, No.3, pp.299-341.

Franchise Directory Handbook, Fall 1992.

Friedman, Thomas (2000), *The Lexus and The Olive Tree*, New York: Harper Collins.

Gilpin, Robert (2001), *Global Political Economy* : *Understanding the International Economic Order*, Princeton:Princeton University Press ch. 1.

Gilpin, Robert (2000),*The Challenge of Global Capitalism:The World Economy in the 21st Century* , Princeton : Princeton University Press.

Guigan, Jim Mac (1999), *Modernity and Postmodern Culture*, Bukingham: Open University Press.

Hoogvelt, Ankie (2001), *Globalization and the Postcolonial Wold: The New Political Economy of Development* , 2nd end. , Hampshire: Palgrave

http://economist.com. (19 August 2005)

http://globalpolicy.org/socecon/develop/ (15 August 2005) http://www.cepr.net/pages/internationaleconomicissue. (2 August 2005)

http://www.delaplata.net/articles/free_trade. (30 September 2005)

http://www.opecfund.org/publications/ar01/economy/htm (26 September 2005)

http://www.umass.edu/peri/pdfs/wp1.pdf. (28 August 2005)

http://www.wto.org/english/tratop_e/trips_e.htm. (12 September 2005)

Human Development Report (2001), New York: United Nations Development Programme.

Hussain, Ishrat (1996), "Globalization and Liberalization: An Opportunity to Reduce Poverty in UNCHTAD", David Woodward(ed.) Globalization and Liberalization: Effect of International Economic Relations on Poverty , New York and Geneva: United Nations , pp.13-23.

Keohane, Robert O. and Joseph S. Nye (2001), "Globalization : What's New? What's Not?(And Do What?)", *Foreign Policy* , Vol.118, No.1, pp.104-119.

Khan,Mohsin (1990), "The Macroeconomic Effects Of Fund Supported Adjustment Programs", *IMF Staff Papers*, Vol. 37, No. 2.

Khor, Martin (2001), *Rethinking Globalization : Critical Issues and Policy Choices*, London & New Jersey: Zed Books Press.

Kothani, Rajni (1995) , "Under Globalization Will the Nation State Hold", Economic and Political Weekly *1593.*

Krugman , Paul (1994), *Peddling Prosperity : Economic Sense and Non sense in the Age of Diminished Expectations*,New York: W.W. Norton.

Kumar, Krishan (1978), *Prophecy and Progress:The Sociology of Industrial and Post-industrial Society*, London: The Penguin Press, ;(Japanese translation, Bunshindo Publishers, 1996).

Lall,Sanjaya (1974), "Less-developed countries and private foreign direct investment.", *World Affairs* , Vol.9, No.2.

Legrain, Philippe (2002), *Open World: The Truth about Globalization* , London: Great Britain , Abacus Press, pp.25-26.

Lucas, R. (1990), " Why doesn't capital flow from Rich to Poor Countries?", *American Economic Review* , Vol.80, p. 92-96.

Luttwak, Edward (1999), *Turbo-Capitalism: Winners and Losers in the Global Economy*, London: Weidenfeld & Nicolson.

M., Ahmet and Gooptu, S. (1993), "Portfolio Investment Flows to Developing Countries, Finance and Development*", University of Connecticut,*Vol.2, No.2, pp.298-300.

Mandle, J. (1997), "The Good Side of Going Global", *Commonweal*, 124, No.13 , pp.1-8.

Mittelman, James H. and Tamble Ashwini (1999), *Reconceptualizing Global Poverty: Globalization, Marginalization and Gender*, Lanham: Rowman and Littlefield Publishers.

Obstfeld, Maurice (1998), "The Global Capital Market", *Journal Of Economic Perspectives*, American Economic Association ,Vol.12, No.4, pp.9-30.

Oshagae, Eghosa (1999), *The post colonial African state and its problems,* in P.Nel and McGowan (eds.), Power, Wealth and Global Order : An International Relations Textbook for Africa, Uni. Of Cape Town Press, p.187.

Perotti,R. (1996), " Growth, Income Distribution and Democracy : What the Data Say" , *Journal of Economic Growth* Vol.1, No. 2, pp.149-187.

Pieper, Ute and Taylor Lance (1998), *The Revival of the Neoliberal Creed: the IMF, the World Bank and Inequality in a Globalized Economy* , Cambridge: Cambridge University Press, Ch.2.

Rajaee, Farhang (1993), *A Theory Of Globalization*, Gainesville: Gainesville University Press of Florida.

Ramcharran, Harri (1999), "International Bank Lending to Developing Countries: An Empirical Analysis of the impact of country risk", *Multinational Business Review*, Vol.34, No.3, Spring, pp.3-4.

Rodrik, Dani (1997) , "Sense and Nonsense in the Globalization Debate" , *Foreign Policy ,* Vol.107, Summer , pp.19-37.

Sen, Amartya (2002), "Ten Thesis On Globalization" , *New Perspectives Quarterly, Volume* 18, No.4 , pp.46-54.

Strange, Susan (1990), *The Name of the Game*, in Rizopolous , N.(ed.), Sea Changes: American Foreign Policy in World Transformed.

Summer R. And A. Heston (1991), "The Penn World Table : An Expanded Set of International Comparisons", *Quarterly Journal of Economics*, Vol.11, No.3, pp:3-18.

Şaylan, Gencay (1999) *Postmodernizm* , Ankara: İmge Kitapevi Yayıncılık.

Şen, Hüseyin (1998), "Different Arguments for and against the role and impact of foreign investment on the development potentials of developing countries: An Overview", *Dokuz Eylül University, Journal Of Economics and Administrative Sciences*, Vol: 13, No.1, pp.28-29.

Teeple, Gary (1995), What is Globalization? Globalization and Its Discontents, New Jersey, Humanities Press.

The World Bank (1996), "The World Development Report".

The World Bank , *Poverty Reduction and the World Bank : Progress in Fiscal 1996 and 1997*, Washington D.C.: The World Bank.

Wangle , S.M. and Musonda Flora (1998), *The Impact of Globalization on Africa" in Bhalla, A.S., Globalization, Growth and Marginalization* , London and New York: Macmillan Press Ltd. Inc., pp.87.

Wess, J. (1991), *Industry in Developing Countries; Theory, Policy and Evidence* ,London: Princeton University Press.

Woodward, David (2001), The Next Crisis Direct and Equity Investment in Developing Countries ,London and New York: Zed Books.