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# Opening Doors in the World Economy

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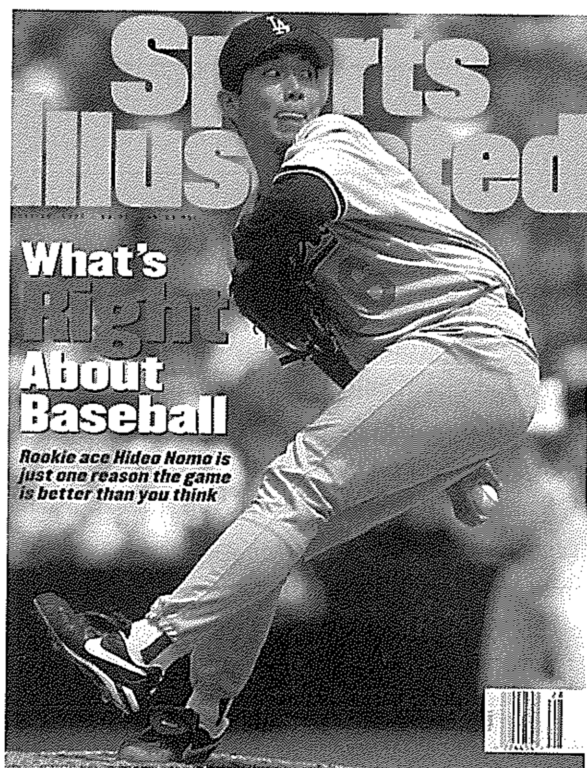
# *Introduction*

JAPANESE pitcher Hideo Nomo's contract with the Los Angeles Dodgers in 1995 initiated the globalization of baseball; the sport embraced market forces that heightened worldwide economic exchanges, integrated this business around the planet, and boosted global cultural convergence. These consequences arose from a world economy designed by the United States after the Second World War. Nomo served as the connective tissue that brought together various drivers of globalization, a process encouraged by the American transnational corporate entity Major League Baseball (MLB). While the confluence of satellite technology and entrepreneurial broadcasting companies extended MLB's world reach, the corporation also strategized that a global pool of labor and consumers would revive the game, help it compete with other sports, and boost revenue (by 2009, revenue exceeded $6 billion). The downside to this process became clear: poor and young talents from Latin America, for instance, were targeted by a voracious system of recruiting outside the bounds of international labor protections. Because foreign players represented over one-quarter of players on Major League rosters, however, the baseball market flourished as an example of the benefits of globalization.

Having coaxed other nations to send their players to the "big show" in the United States, the Major Leagues wanted them, above all, to buy into its vision of expansion and convergence, all under an American brand. Fans around the world had satellite feeds to the games, in which broadcasts were translated into over a dozen languages (including Hindi, Papiamento, Arabic, and Korean). Complex and extensive licensing deals between MLB and foreign companies and business networks forged lucrative local, regional, and global partnerships. That idea, simply, was "of a day when its game is played on multiple continents and the demand for the major league brand—think programming, advanced media, international corporate sponsorship, and yes, T-shirts and hats—cover the globe," wrote columnist Tom Verducci after the conclusion of the first international




Hideo Nomo, Coors Field, Denver, May 7, 1995. The Los Angeles Dodgers' ace was the first Japanese player to join Major League Baseball, thus creating professional sports synergies across national borders that epitomized the modern era of globalization. (Sports Illustrated/Getty Images)

tournament of professional players in 2006.[1] The only remaining barriers to MLB's growth were distance (and supersonic passenger jets were on the drawing board) and vestiges of nationalism that restricted the movement of players. Yet clearly, nations had to play by American rules, even if they beat the United States at its own game, as Japan did in the 2006 and 2009 World Baseball Classic tournament.

Nomo's case illustrates a central fact that since the Second World War, the world economy reflected the power of the United States, and the reception of that power. Although US power was significant, however, it was not always hege-





monic. This chapter examines the co-optation, absorption, and rejection of the US market model by states, transnational entities, and people over the decades as globalization emerged to dominate the world economy. America remained the globe's dominant baseball arena, for instance, but that market accommodated a foreigner whose appearance portended changes in the quintessential American pastime. After the war, US leadership served as the foundation for recovery and growth, but in ensuing decades, rule from Washington was eroded—but not replaced—by multilateral governance of the world economy. The consequence was a world economy shaped by American free-market principles and power that fueled growth for many rich and poor nations alike, brought inequities to a large portion of the world, and integrated the planet into a system in which goods, services, money, and people flowed across national borders to a greater degree and intensity than ever before. The following is a history of postwar globalization's development under American influence. Though the United States was at the center of the picture, it was not alone in the global economy, of course. The Great Depression had devastated international capitalism and factored into the eruption of the most destructive war in human history, a cataclysm that propelled the United States to a position of hegemony atop the global economic hierarchy. From that point until today, competitors have threatened to knock America off its perch; repeated crises have certainly eaten away the country's foothold.

Market forces were always at the heart of this trend, because the hegemonic United States insisted that doors to global economic exchange be pried open and remain ajar, unfettered by barriers that were to be reduced on a multilateral basis. This approach (in ideology and practice) is referred to here as the "open door" doctrine, market precepts or policy, or free enterprise. The open-door concept should not be confused with British commercial policy in the mid-nineteenth century or American approaches to China after 1899, although there are similarities. Here the meaning addresses market access, the freeing and expansion of trade and financial exchanges, and intimate economic relations that led to interdependence the world over. Whatever it is called, this open, sprawling, and integrated system of globalization affected nations, territories, organizations, networks, and people around the world in different ways. It also prevailed—in a world torn by war, diplomatic tensions, poverty, and economic turmoil—because

of America's projection of power through market capitalism, either imposed or negotiated through a multilateral process among governments. Thus, a key theme of this chapter is that state-to-state relations guided the process of globalization, although the agents were transnational entities that thrived on private exchanges.

The path to globalization was neither easy nor profitable for all, nor was it always pluralistic. That is, the United States was the predominant force in the world economy, but its power was most concentrated during the early postwar years and then gave way to other competitors in ensuing decades. Also, since 1945 the world economy has been shaped by such seismic shocks as the British financial collapse, the end of colonialism, hot and cold wars, sharp rises in energy costs, revolts against the open door in a Third World, abject poverty and tremendous debt, the advent of Japanese, European, Chinese, oil-state, and Indian power, the demise of the postwar monetary system, and periodic collapses in credit, investment, and commercial markets that have increasingly enmeshed the entire world in their clutches. The story of those setbacks, as well as the successes, reflected the American market model that, for better or worse, led the world into a dynamic era of globalization.



## 1. *Closed Doors*

IN THE MIDST of the Second World War, as the Allied powers struggled to cut off strategic materials to the Axis powers and boost the supply of goods from American production, the United States and Great Britain began shaping postwar world economic institutions. The goal fixed on promoting a multilaterally run global economy that opened Europe and other key trading areas to US goods, money, and influence, which required exposing the American economy to competition from abroad. Washington took aim on British imperial commercial arrangements that discriminated against the products of nonmembers. Although largely in accord with the idea of open global economic networks, Britain defended its semiclosed system of preferential trade for members in its empire. The British went into survival mode, trading a gradual weakening of imperial protectionism for American largesse to help float their economy during the dire times of war and postwar reconstruction. Negotiations over the outlines of new international economic institutions and the shifting Anglo-American power relationship reflected the ascendancy of the United States, even though a truly multilateral process would have to wait until partner nations had gotten back on their feet. In the immediate postwar period, US unilateralism in the world economy, rather than globalization, entrenched American market hegemony.

This power derived, quite obviously, from the ravages of war around the world. Much of Europe and Asia lay in ruins. Although US observers in particular pronounced optimistic assessments that the European economies would spring back quickly, those hopes were dashed by both the magnitude of the war's destruction and the ineffectiveness of piecemeal aid and stimulative fiscal measures to prime the capitalist pump toward permanent recovery. The combination of the catastrophe of war on others, and America's own productive capacity, gave the United States a huge economic advantage—and presence—abroad. The figures are staggering; the country was a production and consumption monolith on a scale never witnessed before, or since. With just 6 percent of the world's

population in 1945, America produced nearly half of the world's energy, and consumed 40 percent of it; and due to its domination of global oil reserves (59 percent), it is not surprising that the United States manufactured eight times more cars than Britain, France, and Germany combined (and one hundred times more than its new rival, the Soviet Union) and that 60 percent of cars worldwide drove on American roads. By 1950, American consumers enjoyed the lion's share of refrigerators, telephones, and televisions (regarding the latter, nearly 100 percent were owned by US buyers). Of course, income levels drove this purchasing power; by the end of the 1940s, Americans earned two times more than the British worker, three times more than the French, five times that of Germans, and seven times the salary of a typical Russian. Added to its predominance in world trade and its hold of nearly half of all global currency and gold reserves, the United States was truly, as a historian has concluded, "the land of milk and honey" amidst the despair and struggles of other economies.[2]

In part, the United States faced an enormous task due to the conditions of war; the times were not right to impose multilateral, open-door prescriptions. The country had long run sizable trade surpluses with Europe and the British Commonwealth, and harmlessly small deficits with Asia and Latin America, but by 1946 its trade surplus boomed—to a $3.3 billion total with Europe, over $1 billion with the British nations, nearly a half billion dollars with Asia, and $320 million with Latin America. These trade partners might grow their way toward correcting their commercial imbalances with the United States—and for some, like Germany and France, recovery was relatively quick—but the calamity of war stymied reconstruction and, therefore, a balanced global economy.[3]

World War II destroyed territory and property, political systems and ideologies, and livelihoods and lives in Western and Eastern Europe and China and Japan, while Britain, the financier of capitalism, was bankrupted by its effort to defeat fascism and survive thereafter. Whole economies ceased functioning or sputtered along, tens of millions of people lay dead or injured, and hundreds of millions of homes and businesses were eviscerated. Famine plagued large swaths of the world, acutely so in Europe and Asia. Major cities—Hamburg, Manila, and Warsaw—had been destroyed, and aerial bombing campaigns had leveled factories in Germany and curbed commercial traffic in key ports, such as Rotterdam, London, and Tokyo. The European transportation system was in tatters,

The battle for the Philippines, March 2, 1945. This platoon of American soldiers patrols the Walled City of Manila in an epic World War II battle. The destruction signaled the need for tremendous reconstruction aid in the postwar era. (Time & Life Pictures/Getty Images)

leaving the countrysides isolated from commercial centers. Japanese and German merchant fleets did not exist to carry goods. The Soviet Union, for its part, seized territory, factories, and farms, and compelled workers to toil for the USSR's gain. This system of compulsion further weakened Germany and gave the USSR preeminence in central Europe. The brutally cold winter of 1946–1947 punished all of Europe, a region prostrate from war and with no good prospects in sight.

The need (and opportunity) for salvation by the United States was apparent. Lend-Lease aid, a grant of $42 billion in goods and services to the Allies during the war, revealed rising American dominance over the international economic order. Although the main goal of the program focused on military victory through aid, US negotiators insisted that the United Kingdom ease imperial restrictions

on trade and finance for outsiders in return for billions of dollars in Lend-Lease assistance. By no means would President Franklin Roosevelt exploit London's hour of need by withholding aid, but the goal of placing market forces on a firm footing after the war was clear, and Britain reluctantly understood this reality. As a result, wartime aid (and the 1946 discussions over a $3.75 billion loan to England) was engulfed in testy negotiations that elicited howls from defenders of the imperial system. Lend-Lease served American interests—the main one being defeat of Nazism and Japanese militarism—yet that aid provided a platform for US ideas of free enterprise and their projection in the postwar world.

What catapulted the United States to predominance was wartime production. The output and shipment abroad of military goods led to a more than tripling of the value of US exports, which in turn helped double the nation's gross domestic product. Manufacturers, farmers, and workers counted on continued growth for their livelihoods, and to avoid a return to the Great Depression years of insolvency and unemployment. Overseas trade appeared more important for domestic economic stability and growth. Thus, US leaders focused on ensuring that the world economy had enough money for liquidity and investment, and also as few obstacles as possible to trade in goods and services, so that all nations could thrive and buy US goods. America's self-interested championing of market mechanisms not surprisingly undergirded the establishment of the governing postwar world bodies for monetary and commercial affairs.[4]

## Financing Hegemony

In July 1944, over seven hundred delegates from forty-four Allied nations gathered at a resort in New Hampshire to hammer out the Bretton Woods agreements that established the postwar international monetary system. Two years of Anglo-American wrangling over the extent to which the market or state oversight should dictate economic relations resulted in a plan that addressed three cardinal issues: what regulations were necessary to stabilize global economic exchanges, how they would be enforced, and who would safeguard the system. In the past the gold standard had permanently fixed exchange rates to prevent financial fluctuations deemed hurtful to stable commercial relations, but this rigid approach had obligated nations to deflate their currencies when bad times





hit or to simply abandon the gold standard altogether (as the United States did during the Great Depression). The Bretton Woods system maintained the high profile of gold, but Washington agreed to back it with the dollar, which became the world's dominant currency.

Granting America such unprecedented influence was not accomplished without a fight, but it should be stressed that all nations sought a multilateral world economy, or a system in which several nations, rather than one or two hegemons, worked in concert toward agreement. They just disagreed on how to set it up. This was especially so for the British, who, led by the noted economist John Maynard Keynes, understood that New York City had secured from London the title of the world's financial capital, which would weaken the empire, and compel it to carefully regulate the domestic economy. Regardless of these pressures, under the Bretton Woods accords put into effect in 1947, nations established the International Monetary Fund (IMF, or the Fund) to provide sufficient liquidity for commercial transactions. The agreement also created the International Bank for Reconstruction and Development (one of five institutions incorporated today into the World Bank Group), capitalized at $10 billion and designed to make loans for economic development and specifically speed the recovery of war-torn areas. Critical to both institutions in the Bretton Woods system was the predominance of the United States, which contributed the largest subscription to the Fund and, in return, received power commensurate to its size in the pool of currencies and gold that constituted the IMF reservoir of credit. The IMF and World Bank ensured that the American dollar would act as the postwar world's reserve currency.

Concerned about the menace of inflation that could destabilize prices, the Americans used their overweening leverage. As the world's largest creditor, the United States imposed rules to guard against price fluctuations by demanding domestic austerity measures from IMF members. To give nations an initial period of adjustment by permitting them to restrict trade and payments until they recovered from the war, the United States insisted that members limit their currency manipulation and take other measures, such as deflation or selling off assets, to participate in a multilateral, market-driven world. The exception was the Soviet Union. Although Moscow initially agreed to join the Bretton Woods system as the third largest subscriber to the Fund, the Western nations welcomed

Russian membership to encourage diplomatic friendship rather than for economic reasons. By December 1945, Moscow backed away from the IMF, partly out of recognition that the system further strengthened the capitalist community of nations and the USSR's potential rival, the United States.[5]

American conservatives in the banking industry and the US Congress did not mind the Soviet exit, but they did focus on a monetary deal that played to US strengths and interests. Promised that Bretton Woods would allow the nation to forgo major, potentially wasteful foreign aid programs, they got their way by elevating the dollar as the monetary system's "key currency." In reality, this meant that although nations were to "peg" their currencies to gold (fix them within an agreed-upon parity of exchange rates within the IMF regime), the dollar actually determined exchange rates. In essence the dollar became the new gold standard—international transactions were based on the greenback, and all nations defined their currencies in relation to the dollar ($35 could be traded for one troy ounce of gold). That system would not truly function until the postwar reconstruction period had ended in the early 1950s, but payments for goods and services around the world, and thus the basis of the multilateral regime, were made in dollars. As Treasury Secretary Henry Morgenthau told the State Department, "The financial center of the world is going to be New York. The advantage is ours here, and I personally think we should take it."[6] The Americans did, and they exercised supremacy over the global economy.

## Pursuit of Trade Multilateralism

As in the Bretton Woods arrangement, so in establishing the trade regime under the General Agreement on Tariffs and Trade (GATT), the United States labored to shape a globalized market system. American secretary of state Cordell Hull was a staunch believer in the link between liberal trade and national security. He did not pursue the impossible dream of outright free trade (a regime bereft of protectionist obstructions), for politics in all nations would not permit the lifting of tariffs and other protection for domestic producers. But Hull did tie fair treatment (nondiscrimination), equal opportunities, and orderly exchanges in national markets to the promotion of peace. In his view, an open-door commercial system, based on multilateral negotiations of trade barriers and





a market ethic, would prevent a headlong descent into regimentation, "to the suppression of human rights, and all too frequently to preparations for war and a provocative attitude toward other nations."[7] He frowned also on restrictions on the flow of gold, but detested even more the economic nationalism implied in the British system of imperial trade preferences. As the chief trade negotiating arm of the government, the Department of State followed his lead in working to pry open the closed doors to trade around the world. Hull set the standard for the pursuit of market capitalism as a pillar of US trade policy and as a foundation of the process of globalization.

What evolved in the postwar period was less an assault on national sovereignty, for recovery and reconstruction demands required countries to protect their economies, but a planting of the seeds of globalization in the trade and monetary regimes. In other words, the doctrine of the open door set down roots to flourish in a later time when the world economy had reached a more normal stage than the mid-1940s era of destitution and instability. The British, in particular, but essentially all nations, did not pretend to seek unregulated commercial relations. Each had domestic constituencies vulnerable to import competition, each struggled to normalize their economies during peacetime, and each had interests that superseded the theory behind market ideology. In short, there was never a chance for pure economics to dominate the politics and diplomacy of trade; globalization emerged between visionaries and pragmatic politicians. The advent of GATT in 1947 involved a multilateralist drive for installing free-enterprise practices, which themselves were buffeted by protectionism but guided by the state's adoption of Hull's hope for peace through prosperity propelled by the market.

The multilateral trade order reflected a compromise between unfettered commercial relations—the unattainable but ultimate goal of market capitalism—and narrow economic interests of profits through exports or regulation of imports by protectionism. The upshot of dealings, hedging, and the like—by the British preserving imperial preferences, the Australians backing wool tariffs, the Soviets structured by antimarket state-trading mechanisms, the Europeans and Japan endorsing cartels, and colonies in the Third World demanding protection for nascent domestic producers and more access into the advanced world—as a trade system (like the monetary system) reflected less the market and more muted

free enterprise. Even the United States would not permit a sweeping aside of tariffs by sectors of the economy, on a percentage basis; US trade law allowed for only selected cuts on a reciprocal basis when other nations agreed to reduce their duties. The renewal of the Reciprocal Trade Act in 1945 (the US authorizing legislation for trade negotiations to this day) did push the country toward global multilateralism by calling for large cuts, but not by a sectoral process. The British insisted on large-scale American tariff reductions in return for easing quotas and closing some preferential trade deals within the British Empire, but like Canada, Australia, and other Commonwealth partners, London preferred to seek a regulated trade order that balanced imports and exports of all nations rather than focus on expansion through the open door. The result of continual discussion during the immediate postwar years was a compromise on tariff negotiations in which each country sought a bilateral deal on an item-by-item basis and then applied (or multilateralized) the concessions to the broader community of trading nations who joined the bargaining process under GATT.

Yet Anglo-American officials envisioned a more ambitious institution than just GATT's negotiating forum, as well as a commercial complement to the Bretton Woods monetary system. They hoped to subsume every issue related to trade—employment, subsidies, export taxes, quotas, cartels, preferential trade agreements, development, and tariffs—under an agency to oversee commercial relations and, in the American view, ensure that market precepts prevailed. The idea developed into the Charter for the International Trade Organization (ITO), the outlines of which were hammered out in numerous conferences from 1945 to its completion in Havana, Cuba, in 1948. Yet while the Americans sought as few impediments as possible in the ITO, they met the same resistance against market multilateralism as before. Nations tacked on amendments that watered down their commitments to trade liberalism. Some allowed for countries to escape from prior tariff-reduction deals, others blocked US banking efforts to protect its investments in the less-developed world by shifting the burden on bankers from profit seeking to boosting industrialization. A loose coalition of Latin American nations demanded that the philosophy of protectionism and anti-imperialism be enshrined in the ITO.

The modifications eventually doomed the Charter. Cold War ideology impinged on the ITO, because the US Congress (in conservative hands at the time)





and free-trade purists in the business community deemed it a danger to American free enterprise, which they saw as being challenged by the communist menace. Business executive Philip Cortney warned, "We shall drift into Communism and finally to war" because the Charter promoted discriminatory trade arrangements and, therefore, "socialism the world over."[8] Thus, the United States turned on its own creation. Anathema to the market ethic, the ITO was stillborn; President Harry Truman eventually withdrew it from congressional consideration in 1950. A kernel of its idea resurfaced in the mid-1950s but disappeared, too, until the World Trade Organization championed a similar holistic approach to commercial relations during the renascence of globalization forty years later.

A good example of the difficulties facing the open-door approach in this period of transition from war to peace arose from one of the most globalized of industries—Hollywood. Facing the worst financial crisis in its history, Britain saw its international payments shortfall (the "dollar gap") reach an alarming $2 billion by 1947. London simply could not afford its overseas commitments (and thus began to back out of the Middle and Near East in a process that culminated in its withdrawal from imperial commitments by 1956), nor, leaders feared, could it support the domestic economy. However much Britain might embrace the market, this was no time for free enterprise. Because film and tobacco comprised 40 percent of the value of British imports from the United States, the government turned to an austerity program—the kind prescribed by the IMF on consumer goods—to buy "food before fags [and] films." A quota on the number of American movies shown in Britain tightened; at one point, 45 percent of the movies shown in the country had to be domestically made. The Americans cried foul, arguing that the screen quota violated trade rules as a discriminatory internal regulation. Motion picture executives offered an open-door solution: instead of curbing consumption of this luxury good, US industry would promote British film exports to earn London $30 million in 1948. Britain brushed aside the remedy as a false promise, for American studios dominated the industry at home and abroad, and proceeded a step farther along the road of protectionism by imposing a special tax on US films alongside the screen quotas. The tax was eventually repealed in March 1948 but not before American producers issued a boycott on exports to Britain. The British would not allow the market to decide the fate of their struggling film sector, and screen quotas remained in place for decades.[9]

Such trade disputes, and the complexities inherent in linking global markets to domestic economies, boded ill for a complicated rule-making body like the ITO, so GATT became the fallback institution for a world trade organization. Yet GATT met with some success in this period by maintaining modest momentum toward lowering or freezing tariff levels. In three "rounds," or negotiating conferences, between 1947 and 1951, dozens of nations exchanged nearly seventy thousand tariff concessions. By the end of the third round, duties had been cut by one-quarter of their level in 1948. To be sure, the market-oriented drive, particularly against British imperial preferences, sparked tensions at the first round, in Geneva; US negotiators had fits about London's unwillingness to give way due to its dollar gap, which made "multilateral trade almost an impossibility," confessed one British official.[10]

The saving grace for Britain was the Soviet specter. In a pattern that emerged from the early Cold War and persisted until its end, US officials cast trade negotiations within the larger context of the struggle against global communism. One of many instances of politics subsuming economics arose during the Annecy Round of GATT in 1949. American lemon producers lobbied hard against reducing tariffs in the face of Italian lemon imports, only to be told that to guard against a peasant revolt in Sicily and promote Italy's allegiance to the North Atlantic Treaty Organization (NATO), the concession would be granted.[11] During the Cold War, trade was used as a tool of diplomacy. America often opened its markets to aid its trade partners while it permitted discrimination against its exports abroad, all in the name of promoting stability within the capitalist world and seeking a liberal, open commercial order in the long run.[12]

## Free Enterprise in a Time of Crisis

American leadership had ever greater urgency as the West confronted the threat of communism alongside the difficulties of reconstruction. The Bretton Woods institutions were inapplicable in a time of economic crisis. Unstable national currencies were inconvertible into dollars, and the Wall Street–led IMF insisted upon rigid standards of sound banking and production practices rather than easing terms of lending. Faced with feeding and housing 120 million people in the former Axis nations and aiding those Allied areas devastated by war, the





United States also organized costly occupation governments in Germany, Japan, and Austria that belied optimistic forecasts of quick recovery. For instance, Japanese industrial production crawled along at one-fifth its 1913 level, and Germany's sputtered at half that rate. The USSR, meanwhile, seized some of Germany's economic assets as reparations, thereby further dousing an industrial resurgence by this engine of the European economy. As the split between the Soviets and the West widened due to territorial disputes, diplomatic tensions in a host of issues ranging from sharing atomic technology, the joint administration of occupation zones of former enemies, and Russian sponsorship of socialist parties and subversion in Western Europe, Greece, Turkey, and elsewhere compelled the United States toward the containment of Russian influence and power.

Economic containment was the initial answer to the USSR's suspected expansionist and threatening foreign policy. Because this new American approach divided the world into two camps, installation of a multilateral market system was further delayed. In fact, the emerging Cold War so transformed the world economy that it set in motion a process of deglobalization of markets, in which the unilateral leadership of the United States and regional economic organization became the rule for decades. Within this circumscribed system, the Americans adopted an ever more market-oriented ideology as the confrontation against the anticapitalist ideology and practices of the Soviet (and soon Chinese) bloc became a fixation in Washington and in corporate boardrooms. Globalization would surface decisively only after the priority of security over the world economy ended some four decades later.[13]

Economic containment endured until Cold War tensions had so split the world in 1948 that militarization, and the subsuming of trade under diplomacy, replaced economics as the means of promoting national security. Initially this was not a coherent effort, as the Americans loaned France $650 million in 1946, followed by more through 1947, but gave a paltry amount of credits to Italy even though the political viability of its democratic system was just as precarious. Unfortunately, US leadership quelled neither the chronic economic crises in either country, nor communist intrigues. Neither did insistence, at the Geneva Round of GATT, that Europe allow in more US exports, which further worsened the European trade deficit as well as the dollar gap.[14] The World Bank held $15 billion in assets that could supplement US aid, but none was forthcoming during

the dollar crisis. The United Nations offered humanitarian aid financed from US coffers, but this was simply insufficient. Any hope of market policies was stillborn. The more direct unilateral approach of the Truman Doctrine, in 1947, offered a remedy. This granted congressionally mandated, direct assistance of $400 million to stem communist inroads in the Middle East. Most pointedly, the Truman Doctrine sparked both the administration and Congress, in tandem, to end the piecemeal approach to European reconstruction and launch a comprehensive program of recovery, regional capitalist integration, and the containment of communism.[15]

This European Recovery Program (ERP), or Marshall Plan, offered a solution to the economic deprivation in Western Europe and communist political and security threats. The situation was dire in the region for American friends. The Western Allies' German zones of occupation suffered from slow starvation and feeble industrial production, due to both Soviet-imposed barriers and the deindustrialization policies of all the occupiers, which was exacerbated by the dismantling of factories for shipment to the USSR. A shortage of coal arising from stalled German mining meant death by freezing and cold homes throughout Western Europe, particularly in Germany, for many in the winter of 1946–1947. As a result of the "hunger winter" and the desperation instigated by bad heating, difficulties in procuring water, and struggles to maintain basic hygiene, Berliners turned to a vigorous black market when it became clear that concrete international aid was not forthcoming. Mothers resorted to illicitly trading the family cigarette ration or milk card to farmers for food; as one woman recalled in explaining her response to starvation, "I was no great black marketeer but an advanced forager." Youth in particular were skilled at illegal trade. In their occupation zone, the Americans tried to curb black market practices by opening a Barter Center in which Berliners could sell their goods for certificates to buy other products, but even the occupiers were often seduced into trading cigarettes for sex. In Germany, "an ambiguous moral economy" appeared next to the legal one and oftentimes was a more effective means of survival.[16]

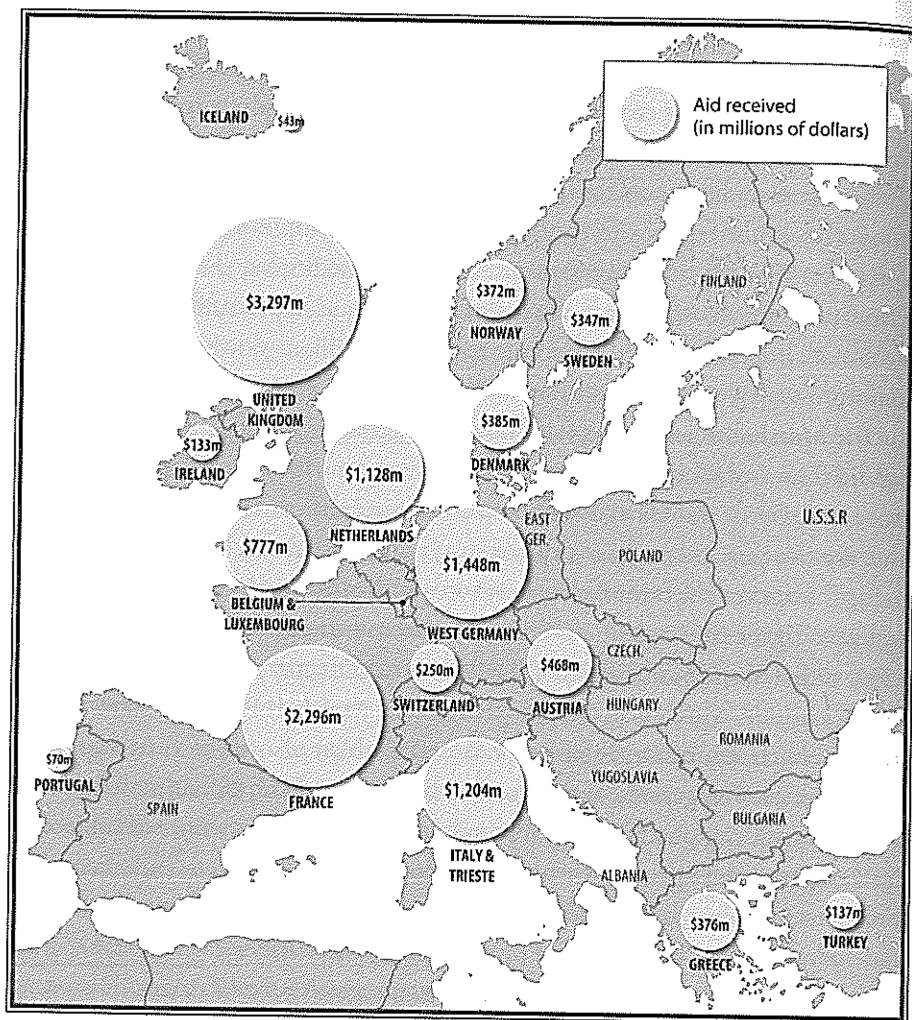
In addition, European agricultural production in 1947 was just 83 percent of 1938 capacity, industrial output was not much better, and exports ran just 59 percent of the prewar numbers. These figures explained the growing dollar gap and consequent dysfunction of multilateral trade and financial arrangements.





Although America's economy did not rely on exports, which amounted to just 6.5 percent of the gross national product in 1947, farmers, steelmakers, and auto factories sold a sizable percentage of their goods abroad, and 2.4 million workers depended on exports. But even though economic arguments might win over the US Congress and business to full-scale aid for European recovery, the threat to democracy in the region was the administration's trump card. Plans went forth to draw on World Bank reserves, private loans, and credits, but the need for a large, formal program was in order.[17] Without it, hunger and hopelessness might lead to revolution; politics reflected economic realities as millions slowly starved and the communists exploited the distress.

The Marshall Plan by itself did not solve Western Europe's economic crisis, nor did it immediately jump-start the world economy into a condition of market exchanges, but it did lay the foundation for a rebirth of free enterprise by the time the five-year aid package expired in 1952. The assistance totaled $13 billion, giving Europeans the resources to promote production, curb distribution bottlenecks, and generally regain confidence in their economic institutions.[18] It certainly added to the momentum of the division of Europe, particularly the Soviet bloc of nations, which was offered but rejected Marshall Plan aid. As it stimulated the recovery of the region, the Marshall Plan also united the capitalist world into an integrated, market-oriented framework of exchanges that kept alive elements of globalization. To be sure, the ERP nations were not subject to the dictates of the open door; they molded the Marshall Plan to suit their own traditions and obstruct many US designs, such as the attempt to restrict British trade with Eastern European socialist nations.[19] The Americans got their way, however. They initiated and furthered the integration of Western Europe by stressing production (a market ethic) rather than the redistribution of income (a socialist objective). Productionism would allow for the normalization of world economic relations, a step toward the operation of a truly multilateral system of American free enterprise.[20] Such success would also, of course, serve US interests. The former cotton marketeer and State Department official Will Clayton argued, "Let us admit right off that our objective has as its background the needs and interests of the people of the United States. We need markets—big markets—in which to buy and sell."[21] America would use its muscle for the greater good and, in no uncertain terms, for its own.




Participants in the Marshall Plan, 1948–1951.

The saplings of market policies were actually nourished by a transnational combination of the Economic Cooperation Administration (ECA), the US agency in charge of the aid program from the American side, and its European counterparts. Staffed by prominent corporate leaders brought into government to run the aid effort, the ECA sponsored advisory boards for all sectors of the international economy that not only studied remedies for recovery but created





partnerships with Western European "productivity teams" that represented industry, labor, and government leaders. For instance, ECA leaders and the US Chamber of Commerce teamed with British technicians, foremen, and managers who themselves collaborated with civil servants in the National Joint Advisory Council. French business and labor formed into "modernization commissions" to coordinate various sectors of France's economy under the guidance of the father of European integration, Jean Monnet, and similar organizations evolved in Western Germany and Italy. These efforts furthered production goals and economic integration in ways that laid the foundation for future multilateral ties, yet they also indicated that the Americans had to compromise in their goal of reshaping European economies in the image of the New Deal, in which government encouraged a grouping of industry, labor, and agriculture into cooperative networks. For now, the Europeans preferred their own model—that of redistributing wealth rather than growing the economic pie, although transnational links fostered by the Marshall Plan stimulated regional integration.[22]

The impact of the Marshall Plan on the world economy was significant in this regard. In the effort to promote European integration as a basis for permanent recovery, which itself would make possible a global regime of open doors, officials established the Organization for European Economic Co-operation (OEEC) to administer the ERP. The OEEC eventually, in 1961, merged into the Organization for Economic Co-operation and Development (OECD), a thirty-nation body aimed at promoting a free-market global economy. The OEEC, as well as the ECA under Studebaker Corporation's Paul Hoffman, encouraged supranational and transnational economic integration under a European Payments Union in 1950 and a European Coal and Steel Community (ECSC) the following year. The latter joined France and West Germany in a cooperation based on selling this key but politically charged product, and thus won American backing even though the ECSC was really a cartel that contradicted free-market principles.[23] These institutions reflected the limited form of multilateralism that had come to characterize global economic structures; the European Payments Union, for example, allowed continued unilateral discrimination against the dollar and depended on dollar aid rather than a Europe-wide unified monetary regime. These efforts also led to the establishment of the European Economic Community, or Common Market, in 1957, although that body, too,

discriminated against nonmembers' exports. The open door remained circumscribed by such regional economic integration, but the effort prompted political cooperation (and eventually, greater trade liberalization) within Europe, diplomatic unity among Cold War allies, and the potential for market globalization once conditions were right.

One important seed of the market approach had been planted in Western Europe: the overriding importance of consumption as an economic driver. If Europeans had their own ideas about the structure and policies to guide their economies (and, after all, they had long held a tradition of market economics before the war), they also gravitated toward the American view that a high standard of living was a right. Europeans became citizen-consumers—"children of Marx and Coca-Cola"—who sought private gains as well as government-generated higher wages to secure their well-being. Americans pushed Europeans to embrace the "politics of productivity," in which workers sacrificed high wages and job security to revive export-driven growth. This involved mass-marketing techniques to build a consumer economy and culture that bypassed politics for economics. In other words, the "American assembly line" would bring a "full dinner pail" instead of the "communist party line" of the "free lunch."[24] The most far-reaching consequence of the Marshall Plan, then, was in the creation of a transatlantic alliance of consumption—a bloc of nations aligned as consumer democracies—which served as the basis for the Americans' market designs for the world economy.

## Cold War Economics

As US assistance poured into Western Europe, the United States led an effort to shore up and strengthen the capitalist bloc against the Soviet Union, its satellites in Eastern Europe, and other potential members. The goal was to limit Western economic ties to the socialist world, in the hope that this would deny these Cold War enemies such strategic goods as sensitive technology and critical military hardware but also would increase the dependence of these satellites on the USSR and thereby force Moscow to divert precious energies to its regional allies and away from its military. In addition, the United States had long frowned upon socialist planning, state trading and government monopoly practices, manipula-





tion of currency values, and other intrusions in the market economy. The Soviet side simply did not want to play by the rules of multilateralism and the open door, as evidenced by the Russian refusal to join the Bretton Woods institutions, GATT, and the Marshall Plan. Once it was clear that the international politics of the Cold War had destroyed the World War II grand alliance by mid-1947, the ERP nations—led by the United States—began to curb and embargo exports to the communist world.

The ever-tightening noose of the strategic trade embargo, which became a pivotal part of the West's containment of the East, had profound implications for the global economy. For instance, the Allis-Chalmers Manufacturing Company canceled a machinery sale for a Czechoslovakian steel plant in 1947 on the grounds that the mill would serve the economic interests of the Soviet Union. The list of goods denied to the East soon extended beyond military equipment to technology transfers and civilian-use products, although European governments increasingly chafed at the wide scope of the sanctions, concerned as they were about recovery. By 1948, trade between Eastern and Western Europe had fallen to one-third of its prewar level, a worrisome development because expansion was necessary for reconstruction, stability, and growth. Western Europeans needed Polish coal, which Poland exported in large quantities despite having been rejected by the World Bank for a loan to help the country overcome its dearth of hard currency to buy consumer goods. Poland resigned from the World Bank in 1950, but the issue clearly showed that Europe's economies were interwoven. Sanctions expanded steadily, but the OEEC nations were oftentimes not willing to make the sacrifices demanded by the United States. Thus, when London and Washington established long lists of prohibited goods, the OEEC countries, including Britain, undermined the effort by maintaining their bilateral trade arrangements with the Soviets and the satellites.[25]

The British were certainly not passive followers of the American lead. In the critical field of aviation, for instance, they directly competed with US producers for the burgeoning international aircraft market. This effort, of course, related to their need to export and overcome their dollar shortage and domestic economic crises, but it also reflected the discomfort with American controls on East–West trade. London had the new air transport model, the Brabazon, on the drawing board, and as early as 1945 it turned to exporting its cutting-edge jet engines to

nations eager to build up their civil aviation fleets. The decision was unusual in the sense that the Attlee government allowed companies to sell the most advanced engines, including Rolls Royce's Nene and Derwent state-of-the art military models, to whomever they wished and with minimum government oversight. Aware that making such engines available even to enemies weakened their hold on technology leadership, the British nonetheless sacrificed their advantage on the altar of economic need. Thus, in 1946 Britain sold civilian aircraft to Argentina, a former Nazi sympathizer excluded from the United Nations, and then turned to selling jets to Josef Stalin himself. The Americans protested, recognizing that British competition menaced their monopoly on the postwar aviation business, but they also played the Cold War trump card, arguing that even technology directed toward a nonmilitary use could increase the war-making potential of an enemy. Even worse, by 1948 Britain exhausted its supply of Nene and Derwent engines by fulfilling Moscow's large bid, and thus depleted its own Royal Air Force fleet. Americans criticized the sales as immoral, stupid, and risky, although high-level talks yielded a British promise in 1947 that subsequent aeronautical exports would come under the scrutiny of the government's military and security advisors.[26]

The creation in 1949 of CoCom, a permanent Coordinating Committee of technical experts with a policy-making executive to provide oversight, were the upshots of continued wrangling among the Western allies over such security-sensitive items as aircraft in East–West trade. In establishing their multilateral embargo, the Western nations created categories or lists of items, ranging from 129 military and strategic exports to a handful reserved for future scrutiny. From this point onward, the Americans insisted on adding goods to the lists while the Europeans, in general, wanted them reduced. This was certainly not in keeping with America's market ethic of opening doors to trade, but it reflected the overwhelming effect of the Cold War. The Department of State understood the need to reconcile the embargo with ERP nations' economic needs, but the Department of Commerce, Congress, and the newly created National Security Council (NSC) tended to equate these exports with Cold War security policy. By the mid-1950s, after the Cold War standoff had frozen the world into two military camps, even the State Department toed a stricter line toward sanctions, including endorsement of a more extensive East–West trade embargo. The British





refused to expand the CoCom lists when it came to nonstrategic trade with Eastern Europe, at least up to the outbreak of the Korean War in June 1950, and thus preserved their industrial trade with the communist world. Still, politics trumped economics. Prime Minister Clement Attlee's economic policy committee warned that "it was necessary not only to limit the short-term striking power of the Soviet bloc but also to retard the development of its war potential in the longer term."[27] That the postwar trade and payments system in Europe could reach the point of economic warfare dismayed one-world idealists, humanitarians, and globalizers, but the Cold War took precedence over open-door dreams.

In contested Berlin, for example, the Soviets charged that interzonal economic contact allowed Westerners to plunder the city while the democracies pledged to defend inhabitants from a communist scourge. The Soviets claimed that they, not the West, actually were more interested in unifying the European economy, for they noted how the Anglo-French-American position on Germany was predicated on establishing a separate German state.[28] Frustrated by their inability to control trade coming into and emanating from Berlin, the Soviets decided to blockade the city, beginning in June 1948, to halt the outflow of wealth and adopt a new currency to separate the zones even more. Faced with a dangerous Soviet military presence that shut down all land transportation across Germany into Berlin, the Americans turned to airlifting supplies to their forlorn zone. As a result, they outlasted the blockade for nearly a year. This first Berlin crisis proved a hot point of the Cold War, convincing both sides that economic tools were insufficient to confront the enemy. Both turned to military options, in the form of alliances, weapons, and confrontation. If the United States did not achieve its goal of multilateral exchanges dictated by market capitalism, it did assert its rights and power in Germany in the Marshall Plan era.

Ironically, the Soviet counterpart to the ERP was a fairly multilateral organization within the borders of this emerging bloc of socialist nations, of which the German Democratic Republic, or East Germany, was a key member. In a defensive measure to counter the Western economic challenge and the lure of the ERP, the Soviets mobilized their satellites to face the CoCom export control regime of the West by establishing the Council for Mutual Economic Assistance (CMEA, or COMECON) in 1949. This socialist economic bloc, which stretched

from Berlin to Vladivostok on the Pacific, lasted until 1991 and included more territory than the Marshall Plan or the European Economic Community a decade later. Although it was built on coerced bilateral arrangements between the six original members—the Soviet Union, Poland, Bulgaria, Romania, Czechoslovakia, and Hungary (East Germany and Albania joined by 1950)—it actually engaged in multilateral exchanges and practices in all the key categories of the economy, including production, trade, and finance. As its organizers announced, the CMEA would "establish still broader economic cooperation among the countries of the People's Democracy and the USSR," based on the principle of "equal representation, and having as its tasks the exchange of experience in the economic field, the rendering of technical assistance to one another and the rendering of mutual assistance in regard to raw materials, foodstuffs, machinery, equipment, etc."[29]

Just as the Cominform linked the world's communist parties and the Warsaw Pact served as the Soviet bloc's military organization, so COMECON coalesced the socialist economies across the globe. For instance, by the mid-1950s the People's Republic of China, Cuba, and Vietnam served as observers, but Finland, Iraq, Nicaragua, and Mozambique, among others, participated indirectly in COMECON through commissions in which their government and business communities took part. Such global reach showed that, at least in intention and name, the communists could offer a viable alternative to free-enterprise capitalism.[30] The Western powers ridiculed the CMEA as an artificial means of disguising Soviet domination, but in fact COMECON derived from a long history of organizational economic planning in Eastern Europe, as well as a necessary counter to the GATT's regime of nondiscriminatory, open-door trade treatment in the West. It should be noted, however, that socialist states like Czechoslovakia, Poland, Romania, and Hungary joined GATT over much opposition by Washington, which invoked discriminatory measures against their trade. The People's Republic of China also tried to be seated. But the complexity of socialist trading practices required a truly multilateral federation like the CMEA that relied not on the market to mediate economic relations but on agreements between governments to fix prices (usually at artificially high levels) and to adhere to varied approaches in trade—from reliance on the market to state trading monopolies. In addition, COMECON was also a response to the provocation of Western sanctions against CoCom, which only reinforced the impulse to collaborate in a regional economic policy under Soviet rule.[31]





To be sure, this was also a closed system with no pretense to market precepts, and although it had the potential to evolve into a truly supranational organization to harmonize national plans and practices into a common policy, such a result threatened the authority of communist parties and that of Stalin himself. COMECON served at the whim of Stalin in this period. By 1950, after a brief honeymoon when member states made decisions without centralized coercion, the Soviet dictator abruptly halted the organization's deliberations and converted it into merely a facilitator of trade. He did so to prevent his allies from ganging up on the Soviet Union, and to enhance his own power. Whatever the motives, the USSR curbed multilateral exchanges in Eastern Europe and the Balkans and forced through a principle that gave easy access to technology for those countries (the Soviet Union being one) that lagged behind the more industrialized Eastern European nations. The CMEA also did not prevent corrupt state trading practices; monopolies dictated the economies in each member nation. Yet it was effective in hording scarce hard currencies, stabilizing economies, and protecting them from the world market—COMECON operated by state trading and barter and not on the basis of free enterprise or the use of meaningful exchange rates. As a result of shutting out its members from foreign competition due to the prevalence of state trading monopolies, COMECON's international trade gradually declined through the decades. Still, the organization structured economic relations in the communist world, provided the USSR with an answer to the Marshall Plan in terms of institutionalizing trade relations and boosting postwar recovery in Eastern Europe, and, above all, armed the Soviet bloc with economic tools with which to survive, and even expand, in the divided world of the Cold War.[32]

Once the Korean War began, in the year following the end of the Berlin airlift, the shared logic of the two sides of a purposively discriminatory economic order rendered a freezing of East–West trade more possible, just as the Cold War itself froze in its tracks the development of a truly open multilateral world economy. Indeed, in 1951 American sales to the USSR declined to just $2 million worth of goods, while Western European exports to the Soviet bloc rose to $682 million, or more than one-half of the 1938 level. These figures represented only a

partial defeat of US stringency, for the total for America's allies had fallen by a third from its 1949 peak of $994 million.[33] Add in the ongoing recovery of the Marshall Plan nations and modest trade liberalization under GATT, as well as the solidifying military alliance under NATO, and the United States could claim that a pulse of momentum existed toward the market ideal even within the rigidities of the Cold War.

## Asian Battleground

At the time when crises in Europe were elevating military containment over economic diplomacy, Asia emerged as a testing ground for the securitization of the world economy and the consequent threat to the multilateral market vision. Actually, although preventing future aggression by Japan and trying to mediate a civil war in China were the top concerns of world leaders, the Cold War stimulated concerns over the Asian region's impact on global markets. As in Europe, the United States took the lead in attempting to reintegrate Asia back into a multilateral system of trade and payments, but guns often supplanted butter as the driving force of regional policies.

This trend was clear in the American occupation of Japan, as the United States switched in 1947 from a focus on demilitarization and liberalizing Japanese political institutions to a focus on placing the nation within the context of American strategic interests by curbing reforms and pursuing economic reconstruction. In a sense this was similar to the American experience in Europe when the quest for the open door was shoved aside for the pragmatics of economic recovery. The parallels did not end there, either. Japan lay prostrate after the war, having suffered over 1.8 million dead and damage to roughly 40 percent of its urban areas. Six million soldiers and repatriated colonists joined their compatriots to face the challenges of large unemployment, which jumped to 13 million in 1946. The country became dependent on the United States, for Japan had also lost its overseas territories by war's end and had no access to food and raw materials, and its industrial production plummeted severely. Like Germany, Japan had once been a great world workshop, but it no longer held that status. Starvation ensued as agriculture was plagued by bad harvests. Looting and other crimes were rampant, catalyzed by shortages combined with spiraling inflation that





punished the citizenry. By 1948, 3.7 million families had no homes of their own. As in Germany, a black market (called the "free market" in Japan) thrived, although prices came down from roughly 34 times the official price for goods to double that level by 1949. Initially, Douglas MacArthur, the supreme commander for the Allied powers who oversaw the occupation, feared a resurgent militarism more than the impoverished state of the country.[34]

In his pursuit of democratization, MacArthur set out to eliminate the closely knit financial and industrial combines that controlled entire sectors of the Japanese economy. This assault on the *zaibatsu* mimicked the Roosevelt campaign against cartels; concentrated wealth, believed the Americans, suppressed individual rights, liberties, and free enterprise, and thus pushed nations toward aggression. The behemoth Mitsui alone was estimated to be the size of several of America's largest companies, including U.S. Steel, General Motors, Standard Oil, Alcoa, IBM, National City Bank, and DuPont. The reforms gave heart to leftist agitators and labor unions, which further upset Japanese conservatives, who defended the cartels as well as their own elite positions within the political system. When MacArthur fired fifteen hundred businessmen and bankers, the conservatives exaggerated the firings twentyfold. Although many had initially welcomed the American occupiers as fellow capitalists bound to embrace the *zaibatsu* as critical to recovery, they turned out to be naive. The Americans focused on punishment, and Japanese business bore the brunt. As well, Premier Yoshida Shigeru, although a conservative, agreed to redistribute land to farmers, who mostly still paid rent to rich holdovers from the feudal period. Yet inflation in 1947–1950 ruined the rural economy, and the tenant rate plummeted to 8 percent.[35]

These internal stresses, reparations payments, and underestimations of domestic consumption requirements that left the population hungry and poor—plus the sputtering global economy—resulted in a feeble output and stymied economic recovery by the end of 1947. Industrial production stood at less than half of the early 1930s average, while exports totaled just 10 percent. Income levels also remained at just half of the 1930s level, despite $400 million in American spending in 1947 alone for the occupation. American officials concluded that reparations had to end, along with the assault on the *zaibatsu*, to prevent Japan from sliding into permanent depression and socialization of the economy. As

policy planning staff and containment policy author George Kennan put it, just as Spain occupied a critical strategic position for the Western allies in the Mediterranean, so Japan was a linchpin in Northeast Asia, but economic disaster was so imminent that turning over the reins of power to the Japanese themselves at this point "would be precisely what the communists want."[36] The fear of a communist revolution replaced worries of Japanese militarism.

As a result of strategic concerns, the Americans reversed the course of their policies. They curbed the decartelization process and endorsed a peace treaty to end the costly occupation, but they also pushed Japan toward embracing freer trade policies to prod the country's integration into the GATT and Bretton Woods systems. In 1948 MacArthur agreed to end his trustbusting of the *zaibatsu*, phase out reparations (they were halted by May 1949), and generally relax controls over the economy. Restraints were not wholly lifted, and Japan continued to discriminate against American exports, but it was allowed to do so in order to strengthen its economy and stabilize its political system as an American ally in the anticommunist alliance in Asia.[37]

Cold War strategists argued that Japan should be encouraged to expand its trade in Southeast Asia to enjoy a surplus with its less-developed neighbors that could be used to fund its recovery and pay off its dollar debt to the United States. The Americans then would recirculate these funds into the occupation economy to purchase raw materials for Japan, thus building a strong regional economy. To effect an export-driven economy rather than restore Japanese heavy industry through neomercantilism, the Yoshida government established the Ministry of International Trade and Industry (MITI) in 1949. MITI embraced the ideas of the Bank of Japan's governor Hisato Ichimada and Nissan conglomerate founder Ayukawa Yoshisuke to focus on light, labor-intensive industries. These were more easily produced and sold (because of their cheapness) than chemicals and other heavy industrial products, and could better compete overseas to earn foreign exchange.[38] There would be no Marshall Plan for Asia, but American capital investment blossomed during this period. The Japanese embrace of light industry and export expansion also connected Yoshida and his Liberal Party, which dominated Japanese politics into the 1990s, to American free-enterprise doctrines and the multilateral global economy. The "reverse course" of 1947 would be entrenched by the Korean War. In 1951, following the outbreak of that war,





Japan and the United States signed a peace treaty in which the United States received military bases and responsibility for Japanese security. In return, Japan got its independence, although within an American framework of governance, economic structures, and protection.

Tokyo was well on its way to becoming a key member of the American economic system in Asia; recovery and self-sufficiency would only last once the United States had improved the Far Eastern area's economy as a whole so that Japanese exports could be bought by productive regional buyers. This was no worldwide regime of market capitalism and cooperation but a regional product of the Cold War division and fear of communism. Regionalism was the stepping stone to greater economic integration, sustainability, and security. For instance, the Southeast Asian colonial outposts of Indochina for France, Malaysia for Britain, and Indonesia for the Netherlands had long been viewed as cornerstones of European recovery. Nationalist rebellions and insurgencies were potentially dangerous harbingers of communist takeovers. Now Americans placed the entire region in the context of preventing the Soviets from seizing mineral wealth and dividing the area into polar camps. The impending victory of the communists in China already foreboded of this danger, but despite America's long involvement there, the Chinese, unlike the Japanese, lacked both a developed economy and a history of integration in the global economy. Thus, in part, American involvement in Southeast Asia evolved from the need to maintain sources of raw materials and markets for Western Europe and Japan.[39]

In essence, while regionalism undermined globalism, the crises in Europe and Asia were related, because the United States expended great effort and fortune to combat forces that could destroy democracy and capitalism worldwide. Washington determined to keep both regions open to American interests and the market idea in the future. As Kennan noted, Japan and West Germany, "the two greatest industrial complexes of East and West," had to be saved from communism. So immunized, they could both serve as regional bases of the anticommunist coalition.[40] This also meant that Japan was treated as a second-rate economy; it would compete, not in the US or European markets, but in the developing world instead. That Japanese central planners envisioned a cutting-edge economy based on long-term investment in science, advanced technology, and high-end manufacturing was not noted by the Americans at the time. The confluence

of the dollar gap and the open-door doctrine, both laboring in the shadow of Cold War security threats, compelled the United States to push Japan toward expansion in Southeast Asia—an irony in light of the rationale behind the Greater East Asia Co-Prosperity Sphere of the 1930s and wartime period. It also converted the United States from a vocal opponent of colonialism to an evolving backer of a formal European presence in Asia, as well as from a long-time friend of China to a vociferous opponent.[41]

China proved to be a lost cause for the open-door campaign. The Truman administration, under pressure from Nationalist leader Jiang Jieshi's lobby in Congress, had actually granted the Chinese a $463 million assistance package as an add-on to the European Recovery Program bill in 1948 to prosecute the civil war against communist forces led by Mao Zedong. Aid was contingent on Generalissimo Jiang reforming his corrupt government and leadership, which never happened. Events turned against Jiang, who received only a small amount of the assistance before Mao conquered his Nationalist government and banished it to Taiwan in 1949. This development came as a devastating blow to the American psyche as well as to foreign policy interests, although at least before the Korean War the United States did not restrict trade with the new communist government as much as it had with Eastern Europe. In part this was because of British concerns with safeguarding banking, investment, and shipping interests in Hong Kong and mainland China.[42]

While the Americans viewed the advent of communism in China as another example of the menace of the Soviet bloc, the British had different ideas. The United States set out to drive a wedge between Moscow and Beijing by closing off all economic contact with Mao in the hope that he would become a burdensome dependent on Stalin, but the British held to a more realistic policy of establishing relations with the new government in order to keep a foot in the Chinese economic door. This approach became apparent even before the communists took power in October 1949, and it became a sticking point in Anglo-American relations by early 1950 when London withdrew support for Jiang's Taiwanese government and recognized the People's Republic of China. Those moves had implications not only for American security policies—Washington withdrew military backing for Hong Kong—but for diplomacy and economics. By the spring of 1950, US policy makers issued NSC-68, a secret, high-level review of security options prompted by the clash with international communism. China was hardly mentioned in the document, but it was clear from the document that the Americans were prepared to contest communism throughout the world, even in areas deemed peripheral. Secretary of State Dean Acheson also tried to cover up differences with America's closest ally, Great Britain, over such hot issues as supporting an independent Taiwan and trading with "Red" China.[43]





Britain turned increasingly to the notion that more trade with China not only would promote peace but would help Britain regain its edge in such lucrative industries as the aviation business; but the Americans vociferously disagreed and held to their wedge theory of isolating Beijing to stimulate Sino-Soviet tensions. Like the other Western powers, however, Britain refused to embargo China, although by 1953 (as a result of the Korean War) CoCom applied to China a larger list of restricted goods than existed for Eastern Europe. The economics of the market continued to clash with international politics. The People's Republic did not figure decisively into the US market ethic at this time. American trade with China had never lived up to the half-century of dreams of the open-door proponents; US exports to China were small compared to exports to Europe or even Japan. Aid to Jiang's Nationalist exile government in Taiwan grew from $18 million to $80 million from 1950 to 1952, but that was due to the Cold War and not simply to business expansion. Still, even some corporations such as General Electric and Bank of America favored recognition of Mao's government in order to save their investments (Americans still had $180 million in mainland assets in 1950), and they were encouraged when Chinese authorities quickly restored order after the civil war and welcomed foreign capital. But the Truman administration and Congress compelled such firms to back out of China; the People's Republic would not be part of the American multilateral global economic order until Mao and communism fell from power.[44] Taiwan would take its place as the Chinese representative on the global capitalist stage. China was frozen out of the American economic system for over two decades.

## War and Trade

If the late 1940s witnessed the decline of multilateralism in the world economy, the Korean War solidified the move toward a state of permanent confrontation

with enemies and, thus, hindered market-led globalization. Unilateralism and protection replaced openness and internationalism in the minds of Western leaders once war broke out on June 25, 1950. The Truman administration had already largely abandoned the hope that trade and aid would contain communism, as military assistance to allies quintupled to $523 million in the four-year period ending in 1950. The war clinched the conversion of export control policy into an immutable instrument of the Cold War, rather than as a means to ease shortages among allies or prevent the Soviets and their satellites from obtaining vitally strategic goods. The Korean War brought into greater clarity the national security state and, arguably, represented a low point of American market practices.

While it clarified the capitalist and communist security structures, the war had a significant effect on Asian economies. South Korea went through a postwar downturn, but North Korea boomed for a time as Sino-Soviet aid poured into the country. The "workshop" of the region—Japan—had a similar experience due to outside assistance. Japanese recovery received a tremendous shot in the arm, and the economy got a much-needed boost in the midst of a serious recession, when the country became a staging area and depot for American troops and supplies. Two years into the reverse course by mid-1950, Japan had suffered a severe recession in which half a million people were unemployed, stock prices plummeted, and small businesses failed in large numbers. The Toyota Company produced just three hundred trucks in June 1950, faced as it was by strong unions and a credit squeeze. Then war erupted in Korea, and like other producers, Toyota saw its fortunes reversed and Japan enjoyed a shift in its position in the global economy.

As a source of supply for the United Nations military effort in Korea, Japan earned critical dollars. So influential was this procurement activity that by the end of 1950, after a half-year of fighting, the Japanese trade position dramatically soared as Europeans and the United States faced critical shortages of military goods. From 1950 to 1954 the United States spent nearly $3 billion in Japan on such purchases as weapons, vehicles, ammunition, and clothing, more than its expenditures during the five years of the Occupation. The windfall reversed Japan's dollar shortage, and for the first time since the end of World War II Japan could compete in the world economy—which had become a seller's market that





profited Japanese business. No longer was Japan a minor producer of high-priced goods; instead it became a major manufacturer of competitive products in a global economy stimulated by the war. The economic manna prompted by the conflict was "sent from heaven," exalted Japanese policy makers, and Prime Minister Yoshida saw his government saved by "divine aid" that stabilized the economy and propelled it on a trajectory of growth.[45] Toyota sprang back from the brink of bankruptcy, registering a 40 percent boost in vehicle orders. Selling five thousand trucks within a year, the company boosted its monthly production to two thousand units, doubled wages, and paid its first dividend since the Second World War. Steel production rose by 38 percent, exports tripled during the first eight months of the Korean War, and the stock market increased 80 percent. From textile to construction sectors and metal to communications firms, the boom ignited 10 percent annual growth for the next two decades.[46]

The military procurement stimulus did not place Japan on a permanent footing of trade recovery, yet it did provide the mechanism that primed the pump and allowed for significant investment in basic industries as well as expanded credit for capital goods and export growth. But two significant transformations also occurred, one in Japan's economy and the other in the global economy. First, labor and factories underwent upgrades in technology, and the pace of modernization quickened. At America's behest, Japan acquired patents and commercial licenses that helped its capital-intensive firms emerge, develop, and prosper. The government teamed with the nation's most powerful business federation to import American technology that could be used for both military and civilian purposes. Such dual-use goods included steel products produced by Mitsui, which also made arms, and communications equipment that allowed Japanese producers to cross over into making transistor radios and cameras. For instance, Radio Corporation of America (RCA) fostered the Japanese consumer electronics industry by licensing patents to firms that transferred technology to Japan. Between 1951 and 1984, Japanese companies signed more than 42,000 contracts to import such technology at a cost of $17 billion. The investment was well worth the price, as it planted the seeds of later dominance in trade of high-end goods for Japan.[47]

The second transformation wrought by the Korean War came in the geography of trade. The Americans understood that the end of their occupation of

A Toyota auto assembly plant, June 1952. The Korean War stimulated the Japanese economy, boosting production through exports such as these cars, stabilizing employment, adhering the country to the US alliance, and pointing Japan toward a future of growth. (Time & Life Pictures/Getty Images)



Japan required a shift from maintaining the Japanese economy at subsistence levels to an engagement in economic cooperation fueled by incentives, subsidies, and support for Japanese trade expansion in Southeast Asia. Negotiations over the peace treaty of 1951 involved a reconceptualization of the economic relationship between Japan and the United States, in which American trade and industrial orders replaced American aid. The Japanese economy would be oriented away from China and toward Southeast Asia as well as the US economy. Japan joined CoCom in 1952 and issued strict export controls on trade with China that diminished its trade with the communist nation to just 0.04 percent of its total exports (in 1941, by contrast, 27 percent of its exports had been sent to China). The payoff for permitting increased exports to the US market for textiles and other goods—a policy that infuriated congressional protectionists—would be Tokyo's adherence to the Cold War alliance. Likewise, when the British complained about the potential of dumping cheap Japanese goods in Southeast Asia, Washington replied that the British should "face the realities of the situation and be prepared to meet Japanese competition if Japan is to be kept oriented toward the West and free from Communist pressures."[48] Japan thus recognized its stake in the "Free World" by developing close ties to the West and its allies in Asia, binds that promoted an adherence to competitive market policies later on.

## Underdeveloped Economies and Aid

The American effort to combat communism by creating a world capitalist order based on new trade patterns, economic integration, and heightened consumption stabilized specific areas deemed under threat, such as Western Europe and Japan, but it also broadened the American gaze into what became known as the Third World, or the underdeveloped, developing, or emerging economies. In Asia, Latin America, Africa, and the Middle East, the Cold War brought American economic (and military) power to bear, with oftentimes grave consequences for tens of millions of subject peoples. Colonialism had undergirded the prewar global economy, but the United States denounced imperialism after 1945. Yet security concerns permitted European allies to retain their colonies for a time (Washington granted the Philippines its independence in 1946), and America

insinuated itself into a position of economic dominance without having to occupy territory. The open door made America an imperialist in disguise; the United States tried to infuse the Third World with Western market policies that served the three purposes of profit, stability, and security.

These aims were clear in the guidance of Japan into Southeast Asia. The irony of renewing a postwar version of the Greater East Asia Co-Prosperity Sphere was not lost on some observers, but the need for new trade outlets to turn the Japanese away from China and maintain its position in the free world orbit subsumed such concerns. This policy had foreign policy and geopolitical implications for the United States. Washington decided to support France's defense of its Indochina colony against a nationalist-communist insurgency led by Ho Chi Minh to provide Japan and other Asian allies with a secure source of resources and trade. Although the eventual American war in Vietnam would become a crusade against communism, the initial objective was to convert a recovering Japan into the centerpiece of a multilateral Asian system of trade and finance that would stabilize the region, pacify Japan, and strengthen the larger global capitalist order in its fight against communism.[49] American development policies in the Third World reflected as much security concerns as free-enterprise impulses.

To be sure, America determined to keep open the door to access to the world's raw materials as a means of maintaining the health of the global and American economies, but Washington also sought to dominate the underdeveloped markets in order to shield them from Sino-Soviet influence. A synergy existed between the interests of investment and export expansion by government and business, especially those of multinational corporations. And the consequences of this close relationship were usually uneven, at best, as development for the host nation was less common than the exploitation of the bulk of populations by authoritarian regimes that served Western investors and governments. In short, the recipients of aid from the advanced nations experienced mixed results: some modernized and prospered, but most became locked into a system in which they provided raw materials, agricultural goods, and cheap, light industrial products to the Western and Eastern blocs while foreign corporations or socialist governments so dominated local economies that they distorted development and delayed democratic reforms. The Cold War brought security, in a





sense, but not freedom, rights, privileges, and riches for the general populations in the emerging world.

The advanced nations and their capitalist institutions such as the World Bank and IMF actually did not welcome the developing world being used as a stomping ground for exploitation of resources and cheap labor. The American hegemon stomached undemocratic practices and human rights abuses to procure supplies of critical materials, but foreign investment and trade (except for oil) with the Third World were neither robust nor consistently profitable during the Cold War. By and large, business proved reluctant to invest in the developing areas, which compelled Americans and Europeans to send in direct and indirect aid rather than rely on multilateral market mechanisms of exchange.[50] In addition, the advanced countries also restricted the cheap products of the Third World—from textiles and steel to agricultural goods—in fits of protectionism that undermined development and also, ironically, made the "peripheral" nations more dependent on trade with the "core" capitalist nations. The terms of trade simply favored the advanced nations that consumed raw materials and produced high-cost manufactures, while the opposite was true for emerging economies. Global bankers and bureaucrats might plead for a nonpolitical, internationalist approach to development that they believed would usher in an era of prosperity, modernization, and peace, but statesmen in the core put nationalism—including protectionism against Third World products at home and military aims abroad—above one-world ideology and even market practices. Besides, even the World Bank, the leading nongovernmental organization pursuing development, targeted the economic realm rather than political reform to such an extent that no basic transformation of the international division of labor ensued, regardless of the quest for integrating the poor nations into an open global market.[51] Thus, while there was a growing awareness of the humanitarian burdens and political excesses in the Third World, policies and patterns of economic relationships remained inconsistent and uneven as globalization proceeded through the decades.

Because security overwhelmed the profit motive in American policies during this period, the impetus for higher investment and trade derived from the Third World nations themselves, who looked to the United States as the cardinal source of modernization. They sought protection for their infant industries at the Havana conference on the ITO in 1947, which Americans saw as inimical to

a nondiscriminatory trade policy, but when the ITO was rejected and US tariffs still remained relatively high despite their lowering at GATT rounds, these nations turned to foreign aid. However, the United States preferred the supposed benefits of reliance on open doors and private investment to aid, as the record on the Point Four program of 1949 revealed. Congress approved only $34.5 million of this technical assistance requested by the Truman administration, an amount that fell well short of needs and highlighted the gap between Western promises of development and actual practice. Placing aid within the context of security, defense, and diplomacy did not always work for the poor nations.[52]

Americans proudly lectured on the benefits bestowed on their own country by the free-enterprise system, and developing nations took note. Besides, many of these nations sent a flow of immigrants into the United States in search of the American dream of prosperity. The United States enjoyed a certain cachet that rendered its campaign for market capitalism all the more powerful, and in the immediate postwar period there were few competitors to the American way. The Soviets provided an alternative means and template of development—through state guidance of the economy and direct aid—but Moscow did not focus attention on the Third World until the mid-1950s, after Stalin's death. European colonial powers were bankrupt, and although some reasserted their power, the days of imperialism were numbered as a wave of independence movements swept the world. The *idea* of Americanism—of "the freedom offered by washing machines and dishwashers, vacuum cleaners, automobiles, and refrigerators"—captivated the emerging nations as the United States reshaped the world economy.[53]

To claim that open-door enterprise appealed abroad is not the same as arguing that the Third World embraced multilateralism and free-market capitalism. India was a case in point. The Nehru government planned for a mixed economy, but its five-year plan to raise agricultural production (especially to end a famine), rural development, and promotion of electric power and industrialization followed along Western capitalist lines. There was little land redistribution, and nationalization of industry was limited to the commanding heights of communications, electricity, arms, and transportation. Free enterprise oversaw the rest. American officials preferred more food production and a focus on consumer goods such as radios, bicycles, and apparel; as Ambassador Chester Bowles exclaimed in 1952 in pushing for a liberal, market-driven rural development





scheme, "How I would love to see Sears and Roebuck come out here and really tackle the problem of inexpensive distribution of consumer goods, keyed to the Indian market."[54] Yet differences in economic outlooks, planning objectives, capitalist behavior, and culture showed cracks in the free-enterprise dream. In general, Indians thought of Americans as greedy materialists who consumed too much but who had hegemonic trade and financial power, and thus merited recognition. While Americans cringed at Indian economic practices such as hoarding as immature, Indians needed food and money. The United States was the place to turn after the country earned its independence, split into Pakistan and India in 1947, and could not count on heavily indebted Britain for help.

The United States did not rush in to South Asia to replace Britain, for Washington understood that Europe and Japan needed their former and existing colonies as sources of raw materials and markets. Thus, American trade with India and Pakistan ran surpluses between 1948 and 1953, although this commerce was not tremendous for South Asia and it was of peripheral economic interest to Washington for the time being. Still, India possessed certain strategic materials, like manganese and beryl, and American attempts to add these items to its security stockpile ran up against hoarding by New Delhi as well as the Nehru government's resistance to the extraction of raw materials by foreigners. The government created a maze of restrictions that scared off investors; Indian discomfort with foreign capital curbed the inflow of American money into the country. Such problems, as well as the perception that India simply was too old to modernize, led Americans to believe the country could never be integrated into a dynamic world economy run by the dictates of the market.

Finance to promote Indian food development started to flow once the Korean War broke out, and a loan of two million tons of wheat followed as the United States focused on Asia. But the specter of famine appeared ever more threatening during the delay that occurred before help arrived, delays prompted by arguments over the American Cold War agenda in Asia. While the Americans sought a regional military pact between India and Pakistan, an end to both new nations' dispute over the Kashmir region, and prosecuted the war in Korea, India balked on all three goals despite its failed attempt to help settle the thorny issue of prisoner repatriation through talks with Beijing. As the Indian aid program experienced cutbacks and the United States focused more on military than

economic assistance to the region, tensions were exacerbated. New Delhi was a difficulty for the American model of global economic governance mainly because Washington focused not on regional development but on placing India within a global Cold War context.[55]

The nexus of the Cold War and international economy was also apparent when it came to the procurement of natural resources, and particularly the world's minerals. The beneficiaries of national security policy were the large multinational petroleum companies that profited from Anglo-American efforts to back pro-Western monarchies in Saudi Arabia and Iran, secure the Persian Gulf area, and maintain the traditional US lock-hold over Latin American economies. It was oil that prompted a sharp upswing in private and US direct foreign investment in the 1950s, a change from the period 1945 to 1950 when the figures rose only about 20 percent. American investment in extractive industries exploded, however, more than doubling over these five years to $1.2 billion, and doubling again by 1960, yet it was offset in Latin America by a decline in British investment. Cheap oil and some minerals deemed necessary for national security (rubber) or consumption (coffee) were available only abroad; others were deemed to be in scarce supply after World War II and in need of stockpiling through imports that were oftentimes cheaper than domestic sources. As a result of the latter concern, by 1948 the world's biggest consumer of oil—the United States—became a net importer of petroleum for the first time. The two Cold War blocs competed for oil supplies.[56]

This was one commodity and one area of the Third World—the Middle East—where the United States took aggressive action to assert its interests. With shrinking reserves (America held about 15 percent of global supplies of oil), the United States became dependent on foreign sources of energy. American foreign investment in petroleum shot up by 550 percent in the decade beginning in 1946, to $9.05 billion. The government allied with a coalition of private companies led by the partnership of Standard Oil Company of California (Socal) and the Texas Company (later Texaco) under the banner of the Arabian-American Oil Company (Aramco). This entity drew on financing from Socony-Vacuum and Standard Oil of New Jersey to arrange a profit-sharing deal with Saudi Arabia in 1950 that developed oil fields and resulted in the shipment of petroleum to America at a cost of roughly 40 cents under the price sold from US and Latin American wells. Before, in 1947, Aramco had contracted to build the Trans-Arabian Pipe-





line (TAPLINE) from Saudi Arabia to Lebanon, which could move three hundred thousand barrels a day onto ships headed for the West. This involved the kind of heavy-handed "diplomacy" in which economic imperatives compelled tough political decisions that enraged Third World leaders. Aramco had to secure rights-of-way for the pipeline. Lebanon was amenable, but militant Arab nationalist Syrian leader Shukri al-Quwatly was not, and the Truman administration secretly backed the army chief of staff to overthrow him in March 1949. The way was clear for TAPLINE. A year later, an agreement to split profits evenly between the Saudis and Aramco gave the kingdom skyrocketing revenues, as had been the case when Venezuela forced Royal Dutch Shell and Jersey Standard to give the country a 50 percent share in profits. The American government waived antitrust and IRS rules and granted the US corporations a foreign tax credit to offset their loss of half their profits to Venezuela and Saudi Arabia. In return the United States not only had a growing supply of inexpensive oil through wells and the Arabian pipeline, which fueled development in other pro-Western Middle Eastern nations as well as European recovery, but a stable ally in Saudi Arabia in the region. Aid and arms supplies to friendly oil states followed, along with tax breaks for the oil companies because they served the US national interest. Saudi production increased by 60 percent and royalties to the kingdom by 135 percent; by 1954, Aramco paid King Ibn Saud over $250 billion, four times the total of 1949.[57]

The American hold over Middle Eastern oil expanded and tightened further due to the Soviet threat in Iran. After bolstering the British position in Iran against Soviet incursions just after the war, the United States teamed with London to block attempts to nationalize the Iranian oil industry by forces led by Mohammad Mosaddegh, who detested Western imperialism. When he seized a British refinery at Abadan in 1951, Britain issued a boycott against Iranian oil that effectively barred its distribution abroad. A World Bank economic plan, to provide funding to resume operations and act as a trustee over the oil fields and Abadan refinery until the British and Iranians reached an agreement, foundered on the vagaries of politics. Mosaddegh staked his regime on chasing the British out, and London dug in to salvage its imperial claims and prevent a supposed radical from destabilizing the Middle East. Fearing a wave of expropriation attempts across the Third World, Washington rejected Mosaddegh's request for financial assistance during the boycott and instead engineered a coup that brought

Mohammad Mosaddegh of Iran, November 10, 1953. After his government was overthrown by the CIA, the former prime minister was put on trial, accused of attempting a coup against the shah of Iran, America's longtime ally. Mosaddegh had confronted oil companies in Iran, while the shah permitted them the freedom to exploit the critical energy supply. (© Bettmann/CORBIS)

the shah of Iran to power and gave five big American corporations 40 percent of Britain's historic concession, formerly controlled by the Anglo-Iranian Oil Company.[58] Iran and its oil supplies remained out of Soviet hands and firmly in America's grasp for the next two decades. For the moment, oil companies appeared to be tools of US foreign policy in the region. Still, as one historian has noted, cooperation between them and the US government had added Iran to "the growing list of Middle Eastern nations whose oil fields were integrated into America's national security empire."[59]



## 2. *Shut and Unlocked Doors*

INTEREST in the emerging world on the part of both superpowers revealed that the Cold War became a battleground for markets and ideologies as much as a military standoff. After the death of Stalin in 1953, the Soviets not only launched a trade and aid offensive throughout the developing world from 1954 onward, but Moscow forced the United States to reconceptualize its open-door tactics. Washington grew increasingly concerned about the rising tide of communist threats, expressions of anti-Western sentiments, the pursuit of neutralism in the Cold War, and the chafing for modernization, improved living standards, and better terms of trade as struggling people around the world blamed American policies for their poverty. It was also apparent that the private investors had only a tepid interest in helping the Third World. The United States needed an answer to the Soviet challenge. Blocking communist inroads had been the primary goal behind US recovery prescriptions and development in the world economy for the past decade. Now the effort shifted to meeting the competition for the hearts, minds, and stomachs of three-fifths of the world's population.

The USSR sparked this economic rivalry by augmenting aid to the Third World by 70 percent, from $850 million in 1954 to $1.44 billion two years later. Credits, barter trade, and technical assistance with no demands for austerity measures or other strings attached (as the United States or World Bank insisted) shot up even more. Moscow had a public relations problem to overcome, because many nations, especially those in Asia, disagreed with Stalin's view that those allied with his side should cooperate only with other self-declared socialist countries.[60] The new Soviet leader, Nikita Khrushchev, accepted ties to nonsocialist Third World countries to build unity and confront the imperialist world, led by the United States. Multilateral cooperation, along American lines, was the key.

The effort was neither seamlessly successful nor without its detractors. Economic ties strengthened, and most significantly, aid to China rose sevenfold to 7 percent of the Soviet national income from 1953 to 1960. Using this assistance,

a strong People's Republic would link with Asian communism, the Eastern Europeans, and leftist activists throughout the world to standardize production lines, transportation systems, research and training, and technology innovations "from Berlin to Shanghai" through periodic international congresses. This followed the Western capitalist model of economic integration. Beijing resisted, however, seeking less caution and more instant takeoff in development and certainly less guidance from Moscow to chart its own course. The Sino-Soviet rift was apparent by 1959, especially as Mao angrily denounced the Russian stance of peaceful competition with the West and relations with nonsocialist neutrals like Egypt and India. The Soviets disagreed, claiming that substantial aid had prevented these neutrals and others from economically allying with the West. By the early 1960s, the Soviets had withdrawn technical experts from China and the alliance was dead.

This Sino-Soviet fissure was a blow to Moscow's orchestration of socialist multilateralism, but the USSR focused on a myriad of other places in the Third World to promote its brand of modernization. Like the United States, which tutored its allies to mimic its course of development through the fruits of free enterprise, the Soviet Union counseled nations to note the great successes of Russian development during the 1950s. Emerging countries should link their national liberation movements seeking to cast off the yoke of colonialism to the dream of ever-growing socialist production that would lift them out of poverty and ensure their independence. The USSR offered an alternative, proclaimed Khrushchev, to Western subordination by foreign capitalist monopolies and stunted industrialization. Capitalists thought of the Third World as merely hewers of wood, not as modern, dynamic countries. On the contrary, under Soviet instruction these nations would become independent and use their natural resources to spur industrialization, thus beginning "a better life" for their people while also strengthening the socialist world as a whole and nailing down the coffin of colonialism. The inevitability of socialism sweeping over the world in a generation was mantra for the Soviets; as long as the West did not try to prevent revolution in the Third World, the global economy could become a tool for progress for the masses once in the hands of the communist bloc.[61] Globalization could be dictated along socialist rather than capitalist lines.





The sea change in the Soviet approach to the world economy paid dividends. When just a few years before, local communist parties were isolated throughout South Asia and the Middle East, by 1954 the USSR courted leaders in India, Burma, and elsewhere with promises of massive multipronged economic assistance. In February 1955, for instance, the Soviets contracted with India to build a huge steel mill at Bhilai in the state of Madhya Pradesh. A long-term $112 million low-interest government loan funded the deal, accompanied by an offer to expand trade by sending India industrial goods in exchange for raw materials and local currency. A high-level Russian state visit later in the year drove home the new policy of state-to-state economic cooperation. These types of targeted economic plans galled the Americans, who had largely neglected India's industrial development. Washington scrambled to grab its share of India's steel by seeking to aid in the expansion of the country's largest private producer, Tata Iron and Steel Corporation. The US Treasury balked at the special interest rate terms offered by the American Export-Import Bank, however, not wishing to favor one borrower over another, and Tata eventually turned to the World Bank for financing. The Soviet economic offensive was now in full swing, and not just in India. By mid-1956 the USSR had made credit arrangements with fourteen emerging nations amounting to $820 million, with another $180 million on the way. Washington noted that, ominously, nearly all of the loans were aimed at Yugoslavia, Egypt, India, and Afghanistan, four nonaligned nations that might be seduced to the socialist side by skillful Soviet oversight of impressive public sector projects. As Russian military "frowns have given way to smiles" of economic largesse, wrote Secretary of State John Foster Dulles, the American appeal to the Third World based on market ideology had disappeared.[62]

Moscow was just as bold in Latin America, the United States' supposed sphere of economic influence. After sloughing off President Dwight D. Eisenhower's warning that they would escalate superpower tensions if they shifted their gaze toward the developing world, in January 1956 Russian leaders offered more trade and technical assistance programs to Latin America "on the basis of mutual advantage" as part of an offensive to capture hearts and minds in the region.[63] Soviet trade with Latin America had risen by one-third the year before, with a special focus on Cuba, which sold over a half million tons of sugar to the USSR.

Actually, trade fell thereafter between the Soviets and the region, but the expressions of interest caused the United States concern.

The region posed challenges for both superpowers as well as for international aid agencies. The Cold War was a burden to Latin America; the United States fixated on the threat of Soviet communism, but the Latin nations focused on their historic rivalries (such as tensions between Ecuador and Peru) or rampant poverty. Yet they also realized that the United States especially, but the USSR as well, would pay more attention to issues of political stability and development issues. Of course, this also meant the possibility of heightened meddling in internal affairs by the colossus to the north. In Guatemala, the nascent Central Intelligence Agency (CIA) joined with conservatives and the multinational United Fruit Company in 1954 against the land reform programs of a moderate liberal government. United Fruit protested a compensation package offered by the government. Washington viewed nationalization as a dangerous tendency toward socialism and thus a threat to its open-door ethic. A CIA-assisted coup prompted the reformist Jacobo Árbenz to flee Guatemala. A military junta replaced him and oppressed the population (with tacit support from the United States) for the next three decades. Dulles departed the region without considering requests for economic assistance that might head off similar reforms and rebellions in the future, but the merger of the Cold War with market doctrine could not have been clearer.[64]

Historians debate whether the Soviet offensive really changed US policies in Latin America. It sounded alarm bells in Washington that led to more state visits (markedly, Vice President Richard Nixon's tour in 1958 and a frenzied response to revolution in Cuba). But security agencies were already focused on places like Guatemala before the Russians issued their challenge. In a more profound way, the Americans began to realize that the assumption that economic modernization would lead to democracy and pro-Western policies was valid only if no outside threat was present. The Soviet offensive changed the equation, compelling the United States to consider trying to raise standards of living in the area by pursuing more vigorous economic policies that did not rely merely on free-market pronouncements. Latin American governments responded positively to initiatives that, for instance, established an Inter-American Committee to discuss economic development. The Eisenhower administration urgently con-

Guatemalan rebels stand guard, 1954. These soldiers sided with conservative forces (symbolized by the church) that unseated the president of Guatemala, Jacobo Árbenz. Aided by the CIA, the rebels ended the Árbenz democracy and brought to a halt Árbenz's expropriation of land from multinational fruit corporations. (Popperfoto/Getty Images)

sidered augmenting aid outlays in order to bolster free enterprise. In the end, though, the pursuit of free enterprise won out over meaningful reform by government fiat; Washington's traditional approach of insisting on development through noninterference in markets persisted into succeeding administrations. The region still struggled.[65] The Soviet offensive also fizzled, but it had nonetheless marked US development pledges to Latin America as hollow.

The reception to its economic offensive in the Third World encouraged the USSR and converted economic policy into political gain. Moscow granted easy credit terms (usually at 2 or 2.5 percent interest) paid out over the long average period of forty years, better than nations could get from the Western powers. Barter arrangements such as Egyptian cotton or Burmese rice for industrial goods also sped development. The variety of development programs—from sugar-processing plants to textile mills—also spread modernization to critical sectors, and quickly, to the delight of leaders and businessmen. In addition, the economic aid allowed emerging nations to leverage better terms from both the Soviets and the Americans; Indonesia received more agricultural aid from the United States, and Afghanistan drew on Soviet geopolitical interests to obtain military assistance that strengthened its position in the region. Third World bargaining also led to foreign policy losses for the Americans. Burma evicted the US aid mission from the country after signing a deal with the USSR, although the Americans were later invited back in. Assistance to Egypt gave Moscow a cherished foothold in the Middle East and at the Suez Canal. Khrushchev traded arms to Cairo and Syria in return for Egyptian cotton and thus heightened Cold War tensions. Russia also entered the Arab-Israeli fray on the side of the raw materials producers in the region. In general, as one historian has concluded, the recipients "were generally impressed by this Soviet effort" while the aid injected socialist influence into the global economy.[66]

## Aid

The president of the United States knew it. Eisenhower had referred to the Cold War as the ultimate struggle of humankind for freedom and dignity, but now, as one aide warned, "the Soviets are muscling in on Santa Claus" to the detriment of US interests. Clearly recognizing that the USSR intended to economically





penetrate the Third World in a "sinister" ploy to secure political domination, Ike asked for higher aid appropriations from Congress under the mutual security program. The request was $2 billion higher for fiscal 1957 than the authorization for the previous year. This earmark included a total of $100 million for the Middle East, Africa, and Asia. Provoked by the Soviet economic offensive, the United States finally inched toward a sort of Marshall Plan for the emerging nations. Congress hesitated at providing massive aid, and remained skeptical that results would meet expectations once assistance arrived at the doorsteps of such uncertain allies as India, Yugoslavia, and Spain. Conservatives looked on the aid as bribery with no assurance of working, and liberals viewed it as support for dictatorships or feared that the aid would be used to purchase arms and not to promote production or alleviate poverty. Others simply believed that the United States could not outcompete the focused Soviet plans in the Third World, for the USSR could "offer a sales program that promises the moon or everything that the people of Asia desire," claimed a congressman.[67] Congress merged the special funds into a development assistance program and cut the request by $1 billion, although most of the reductions came in military aid. The administration undertook a study that showed that many nations were interested in both economic development and remaining neutral in the Cold War. Thus, America needed to reconceptualize its security-grounded approach to the world economy by showing that it could provide the poor with better products on better terms than could the Soviets. When Indian premier Nehru visited the United States in 1956, he found American leaders much more accommodating than ever before, and aid more forthcoming.

Like Western trade policies, aid programs in general played to the advantage of entrenched elites who controlled resources and succeeded in alleviating problems only in the short run. This was so because assistance given for strategic reasons (rather than economic ones) fell short of funding the rise to modernity in most cases (the most notable exceptions being Egypt and Israel, top recipients of American direct aid). Cold War–driven assistance struck against the changing and more assertively expressed aspirations of the Third World, which desired aid for purposes of development. American administrations certainly realized the emphasis on economics, but numerous government studies from the 1950s onward placed aid in the context of how growth would serve the ends of a stable world

order, democracy, and victory over communism. Yet Washington also evolved away from purely market considerations when granting aid. Although the United States relied on the World Bank ($3.8 billion in investments by 1958 in forty-seven countries, most in the Third World) and the US Export-Import Bank to finance development on a commercial basis, the Eisenhower administration also turned to soft loans on easier terms, such as longer repayment periods at lower interest rates. Under the Mutual Security Act during mid-decade, nations could repay the United States with strategic materials rather than currency, for example, and Bolivia, India, and many nations in the Middle East and Africa owed the United States at least half of their debt on a soft-loan basis.[68]

Still, America preferred bilateral assistance programs to the multilateral Special United Nations Fund for Economic Development, created in 1956 at the behest of emerging nations, and thus moved to capitalize a development loan fund at $2 billion in order to foster economic growth. This program arose in direct response to the Soviet economic offensive as well as crises in Hungary and the Suez Canal, but Eisenhower also had to overcome opposition within and outside of his administration to public financing of development. Congress almost instantly cut his appropriations request by one-third in 1957 and refused to separate military from economic aid programs. Ike nevertheless linked a long-term commitment to economic growth to national security policies and did so by pushing the government into the credit arena rather than relying solely on private investment or the generation of funds through sales of surplus American products.[69]

Again Latin America emerged as a main target of a shift in thinking. Rioting in Venezuela against Vice President Nixon in 1958 and pressure from liberals in Congress to aid neighbors led to the establishment of the regional Inter-American Development Bank (IADB). This institution made loans and technical aid available and gave investors confidence to inject capital into these poor nations, although Congress would not provide the massive $5 billion capitalization of the Bank as called for by Brazil and other nations. Contributing just $450 million, the United States kept the IADB relatively small. In addition, Latin America received a minuscule percentage of the total US world economic assistance package of $2.1 billion in 1958, with approximately $60 million allocated for the region (just more than the $54 million spent on military aid). Still,





the market ideology of a global economy run by private enterprise bent to accommodate new realities in the Cold War in this conservative administration. Attitudes, at the very least, had begun to change as American administrations became more aggressive in rounding up private and public capital for investment, but state intervention clamped down on the trajectory of globalization.

Driven by the revolution in Cuba, which brought socialism to the region, President John F. Kennedy greatly expanded the Eisenhower aid program. Just days before the aborted attempt to overthrow Fidel Castro a few months into his administration, Kennedy determined to make the 1960s a "decade of development" by launching a hemisphere-wide "vast cooperative effort, unparalleled in magnitude and nobility of purpose, to satisfy the basic needs of Latin American people for homes, work and land, health and schools."[70] Kennedy learned from modernization advocate Walt Rostow that at least four Latin American nations—Venezuela, Brazil, Colombia, and Argentina—stood poised for takeoff and self-sustaining growth by 1970. A renewed Soviet offensive, in which Khrushchev welcomed national revolutions against the capitalists, prompted JFK to ask for a special $500 million package of food aid for Latin America as well as loans and other funding to stabilize commodity prices. He then announced the Alliance for Progress, initially pledging $1 billion in US aid to Latin America for 1962, followed by $20 billion over the next ten years to promote a doubling in the standard of living by 1970 at an annual rate of 2.5 percent. He counted on another $80 billion in internal investment by Latin American nations themselves to accomplish these goals as well as stimulate land reform, end adult illiteracy, stabilize prices of raw materials, and promote democracy.[71]

The short-term success of this bold and popular program belied the fact that ultimately both the Cold War and US market dogma crimped the Alliance for Progress. Results never matched the rhetoric, because elites in the region would not reform and such structural problems as large populations stymied gains in education, health care, and housing. Democracy also declined, as the US government favored anticommunist strongmen over improving welfare.[72] Latin American economies grew at an anemic 1.5 annual rate (only seven hit the 2.5 percent target), although from 1970 to 1974 the increase in the region's gross domestic product reached 3.8 percent. Yet unemployment rose and the landed oligarchy remained entrenched. US funding amounted to $1.4 billion a year until 1968

(afterward, the Nixon administration cut appropriations), and annual total aid reached an average of $3.3 billion when private investment is included. The Alliance sent $22.3 billion to Latin America during its tenure, yet the assistance reached very few people in a meaningful way. The poorest got very little assistance; each Latin American received an average of $10 during the program. Latin American exports grew from $8 billion to $12 billion from 1960 to 1968 but did not keep pace with world trade expansion as a whole. As well, the region's share of the lucrative US market was cut in half by the early 1970s.[73]

Meanwhile, the free-enterprise ethic was alive and well, especially under the umbrella of the international campaign to blunt communist expansion. US business persuaded Washington not only to put pressure on regional government to increase private capital flows but also to restrict competition from Latin American exports and channel foreign aid recipients toward purchasing from American corporations. The power of US firms manifested itself by the overthrow of the socialist Allende government in Chile in 1973 at the behest of International Telephone and Telegraph. That same year the Organization of American States terminated its permanent committee that administered the Alliance for Progress and the program disappeared into history. American direct investments in the region actually rose and moved from extractive industries to manufactures, thereby helping to diversify economies. But US investors went elsewhere searching for open doors. As a result, many Latin American nations remained either dependent on Washington or mired in poverty.

## Anticolonial Era

Not willing to count on foreign aid programs from either of the superpowers for their salvation, emerging nations drew on a template for mutual cooperation and respect that Jawaharlal Nehru had enunciated in 1954 when addressing Sino-Indian tensions. Twenty-nine, mostly newly independent, nations in Asia and Africa, representing half the world's population, gathered in Bandung, Indonesia, in April 1955 to demand an end to Western imperialism and what many saw as the neocolonialist Soviet offensive. This meeting was the first time the decolonizing world struck a position as nonaligned neutrals in the Cold War. The participants took aim on a host of regional disputes, lobbied against the supposed





"color curtain" that structured global relations along a racial hierarchy, and sought ways to bring world peace. In the area of economic developments, the Bandung Conference sought cooperation among participating nations, although this did not preclude ties to outsiders, including foreign capital. The goal was to create a regional economic bloc and consultation mechanism based on self-help through intraregional trade fairs, banks, and exchanges of information while encouraging outsiders to help. The Bandung conferees stressed the need for the United Nations and the World Bank to undertake equity investments, stabilize commodity prices, and aid in the diversification of trade. In sum, economic cooperation would curb unequal trade relationships, predatory financial arrangements, and inadequate aid and development efforts. Pledging to take world economic matters into their own hands by enhancing trade and exchanging technical know-how among themselves, the Bandung participants led the Third World toward a multilateral economic movement for the developing nations.[74]

Their efforts sparked the 1961 Belgrade summit of the Non-Aligned Movement, an organization that by 2007 included some 118 nations, likened to NATO or the Warsaw Pact, in which members oftentimes clashed with each other as much as cooperated, sided with one or the other superpower rather than maintaining their neutrality, or split off from the movement rather than working together. Yet in relation to the world economy, a general thrust occurred toward changing the unfair terms of trade that had been perpetrated by the superpowers in colonial times in order to exploit poor countries. The results of their protests were mixed, judged from the angle of economic gain and development (and their struggle persists in the present-day globalization period), but the nonaligned nations transformed the dialogue, if not the structure, of both the socialist and capitalist economic orders.

The Soviets executed an economic offensive to appeal to the Bandung Conference members, and the US response ran the gamut from cynicism to concern. Some in Washington viewed the Bandung Conference as a communist conspiracy, while others, including Eisenhower, were frustrated by the ability of both these neutralists as well as the socialists to score public relations points by merging colonialism with Western capitalism. The administration struggled to join the propaganda battle with reminders that the USSR acted like an imperial power and that such nonmarket approaches to development as those followed by

Nehru's India had largely failed to help the people. Americans also understood that the Bandung dialogue (and Soviet offensive) represented a transformation in the world economic power structure, but they did not quite know how to deal with the dying out of colonialism, because their allies were imperial powers themselves. The answer was to try to push the West toward adopting an orderly, stable phasing out of colonialism, which also meant preserving the American open-door approach and the inadequately glacial—in Third World eyes—reforms of the global economy.[75]

America and the Soviets were now operating in the "market" of a global Cold War. To preserve and encourage market ideology and practices within the challenging changes in the world economy, the United States considered various options when it came to winning over the emerging nations. What Washington required was a theoretical foundation to its free-enterprise leanings beyond multilateralism and the open door, particularly because those prescripts were greeted with suspicion in the Third World, where the doors had long been forced ajar by predatory capitalists.

Such pressures led policy makers to W. W. Rostow's basic explanation of Western-oriented modernization theory. This posited that modernization proceeds on a linear progression of development, along predetermined stages of growth, that decades later culminated in the integration of economies under a world regime of globalization. In this structuralist view of how nations climb from primitive poverty to the heights of sophisticated capitalist wealth, development is most influenced—or should be most influenced—by economics and institutions (modernity) rather than by customs (traditions). Nations and peoples simply advance stage by stage to modernization, to be helped along by the United States and other big powers. Adopting such modern economic accoutrements as a banking system, an entrepreneurial class, and use of technology, nations advance through a "takeoff" period in which industrialization fuels growth and diversifies the economy. A mature society will emerge characterized by a high standard of living made possible by mass consumption and reduced rates of poverty. Rostow posited that modernization will build "a new post-colonial relationship between the northern and southern halves of the Free World" through "a new partnership among free men—rich and poor alike."[76]





This Rostovian model was not, and has never been, without its detractors. Some claim it neglects small nations in favor of big ones, state-controlled economies for market-driven ones, and development by fits and starts rather than linear. It is not only Western-oriented but American-centric in espousing the success of the US economy and its evolution into a mass-consumption society. Rostow was not that rigid, but his noncommunist "capitalist manifesto" appeared in 1960 with the Cold War struggle foremost in his scheme. Thus, he did have in mind the United States, which had with great success followed this linear path to modernity to the "highest stage" of development (mass consumption), although the communist route of totalitarian guidance of the economy was another. This battle over the process through the stages of growth underlay the Cold War competition in the global economy, especially in the Third World. In short, this liberal economic theory was the underlying alternative vision to socialism offered to the underdeveloped world, and it hinged on preserving market forces to effectuate modernization.[77]

## Third World Revolt

Many poor and developing nations simply did not accept US modernization plans, for they had experienced the meager or deleterious effects of free-market growth strategies. At midcentury, other theories than the positivism of liberal modernization weighed in on the debate regarding the reasons behind poverty. Marxism argued that the world capitalist system was stacked against the South because monopolistic foreign financiers and merchants, backed by a nexus of foreign governments and elite client states, locked the emerging nations into a permanent condition of unequal exchange. Indebted to capitalist finance and suffering economic distortion because of terms of trade (export prices divided by import prices) that mired them in agricultural, raw materials, or light industrial production, the underdeveloped nations could not climb out of poverty except by leaving or changing the system, or destroying it through revolution. Few took this latter path, however, although nationalist rebellions in Vietnam, Cuba, and Angola brought Marxist regimes to power. Instead, the Third World turned to structuralism to critique their predicament. Structuralists agreed with Marxists

such as Paul Baran that global capitalism favored the rich North and perpetuated backwardness in the South by unequal terms of trade. Argentine economist Raúl Prebisch, a member of the United Nations Economic Commission for Latin America, was one of the first thinkers to react against liberalism by adopting dependency theory to explain why wealth flowed from the Third World periphery to the advanced capitalist core. Immanuel Wallerstein later dubbed this process the "world system." Cheap primary goods exported by the developing countries faced competition in the world market as well as constant, but not necessarily growing, demand from the North, while the rich nations sent their high-priced manufactured goods to the South, which was compelled to buy them for their own development. Unequal trade relations thus transferred income to the advanced nations, and foreign investors either avoided the Third World or concentrated in export sectors that further drained profits from the South to the North.

The difference between Marxists and structuralists lay in the solution to this cycle of trade-induced poverty. While Marxist dependency theorists preached revolution, Prebisch and others advocated altering the global economic rules through regional integration, expanded intra-Southern investment and commerce, and a policy of import substitution. This latter prescription was the key to the structuralist protest against market multilateralism, although at times poor nations also had to resort to nationalization of foreign investment holdings, prohibitions on foreign capital, or subsidies to domestic producers to diversify their monoculture economies. Pushed by Latin Americans since the 1930s and adopted by African countries by the late 1950s, import substitution called for diversification from primary goods to manufacturing and services and the nurturing of infant industries. Specifically, it involved protecting local industries by tariffs, import quotas and other quantitative barriers to trade, restricting production to home consumption rather than for export, and directing growth through state control of trade, production, and consumption patterns. This protectionist tool might have punch, for the South wielded it against the Western capitalist regime just as the United Nations was transformed by the addition of dozens of countries newly unshackled from colonialism. Import substitution did not mean isolating the Third World from the multilateral market economy, for it encouraged development by foreign investment by multinationals and wel-





comed foreign aid. But the emphasis was on the home market and not on the open door in trade.

The drive for inward-looking industrialization attacked the multilateral market system but had mixed results. It worked for some of the largest nations in Latin America, such as Argentina, Brazil, Mexico, and Venezuela, because they enjoyed sizable consumer markets for their home-grown manufactures. Smaller nations had less success, and East Asian economies, such as high-tariff South Korea and the Philippines, were fueled by American Cold War aid and investment and a vigorous export trade, so they had little need for import substitution. The Latin Americans, meanwhile, tried to develop their industrial base by protectionism, a strategy that largely failed because they could not escape the advanced nations' domination of world markets or open-door rules that guided exchange relations. By 1960, total exports from the South had risen by nearly a third of their 1950 mark, with Latin America registering a 22 percent increase and Africa a 42 percent expansion (though Asia climbed just 10 percent). These figures hid the fact that Asia dominated in manufactured exports, such as textiles, which accounted for just 15 percent of Third World sales in the world economy. Import substitution generally failed to develop economies and did not augment the Third World's share of global exports, which actually declined as a percentage of the world's total exports. Multinational corporations maintained and enlarged their dominating roles in local economies while high tariffs stifled competition and promoted inefficiency at home.

Emerging nations issued their challenge nonetheless, and with some effect. For starters, they welcomed modernization programs because they came with aid, but many, such as Kenya's Tom Mboya, insisted that assistance come with no strings attached. "Remember, we are also capable of gauging the ulterior motives of all those who offer help to us," he instructed the British in 1961.[78] In addition, in 1958 the struggling countries took aim on the trade system. A panel of GATT experts recommended that the North not insist on reciprocal, multilateral trade terms and instead try more one-sided purchases of goods from the less-developed countries. Structuralism resulted in a campaign that became the economic equivalent of the diplomatic Non-Aligned Movement of neutrals. It awakened the advanced nations to Third World needs and expectations, and even its failure prompted the South to shift from domestic answers to development to

Signatories of the Joint Declaration of the Seventy-Seven Developing Countries at the United Nations Conference on Trade and Development, 1964.



international solutions. This meant, in short, a rebellion against the American-led global capitalist order in finance and trade. Because GATT did not focus on development needs, emerging nations like South Korea, Mexico, Jamaica, and Argentina rejected membership in the trade forum. They turned to the United Nations for help and created the Group of 77 in 1964 at the United Nations Conference on Trade and Development (UNCTAD). The G-77 became the permanent bloc to represent the economic interests of the South. After the first official meeting in Algiers in 1967, the G-77 had chapters in all of the United Nations' agencies as well as the IMF and World Bank. A foremost goal was for UNCTAD to persuade GATT to target development in the international trade system. In the end the structuralist model informed UNCTAD, which was led by its first secretary general from its inception in 1964 to 1969, the longtime reformer Raúl Prebisch.[79]

After institutionalizing the organization to meet every four years as an intergovernmental consultative, research, policy analysis, and technical assistance body—with 191 members by 2009—UNCTAD notably assailed GATT's multilateral market system. The obstacles were immense, because the advanced nations had long focused within GATT on their own trade, and at the Kennedy Round from 1963 to 1967, they concentrated on the new European Common Market. In 1962 twenty-one nations responded with a recommendation for the North to remove or reduce barriers to tropical commodities and semiprocessed goods as well as eliminate new tariffs and quantitative limits on Third World exports. This idea ran up against resistance from the Common Market. These six European countries already provided preferential trade treatment to associated former colonies by granting them concessions (lower barriers to trade than given to others) on many of their exports and not requiring reciprocity in return. Such trade preferences created a discriminatory system against those outside of the arrangement, but the French especially wished to preserve the system because Paris reached a somewhat closed agreement in 1963 in Yaoundé with eighteen of its Associated Overseas Countries (AOC) in Africa. The Third World action program of 1962 threatened this Yaoundé Convention that gave France franc-based cheap food imports and enhanced its image in Africa as a champion of decolonization just as it was losing Algeria. Latin Americans protested their exclusion from the Yaoundé Convention, and the United States backed them, in

part because the Convention discriminated against most emerging nations and also because the deal restricted Western Hemisphere exports of bananas and coffee to Europe, thereby compelling the United States to buy more at a time when its international payments balance was suffering a growing deficit.[80]

A system of generalized preferential treatment to all Third World commodities was also unpalatable to the free-trading United States. Although Washington recognized the need to correct an ever-increasing Third World trade disadvantage, preferences threatened both US open-door doctrine and the delicate political support of Congress for liberal commercial policy. Protectionists at home did not take kindly to free entry of competitive commodities like sugar, for instance, while preferences trended away from market processes in the world economy. The United States preferred to help poor nations diversity their economies through aid, individual (rather than generalized) commodity agreements, and regional integration. Preparing for the Kennedy Round, the new administration of Lyndon Johnson offered to halve certain US tariffs for all nations and insisted on a bland "commercial basis" (meaning reliance on the market rather than intervention) for trade between the North and the South. Seeing the writing on the wall, GATT ministers scrambled to soothe the Third World nations by studying preferences on exports of light manufactures. Frustrated Southern nations threw up their hands and turned instead to revising the international trade rules under UNCTAD.

More than two thousand delegates from 120 nations and several international organizations at UNCTAD pushed the "core" group of Western advanced countries not only for preferential treatment for their exports but, in the event that the terms of trade deteriorated further, also for compensation so that the South could recover its losses. Scoring political points (even though prior East–South economic deals had gone sour), the Soviet bloc warmly embraced these ideas, denounced the "imperial powers" for their resistance to them, and added specific criticism of the Common Market's postcolonial relationship with the African nations. The communist nations offered to buy commodities at fixed, stable prices, thereby allowing the Third World to avoid the uncertainty of profits in the free-market system of the West.

The capitalist core geared up for a fight. The Western Europeans largely bowed to the demand for "selective and controlled" North–South trade to replace the





free-enterprise multilateralism of the United States–led GATT regime, and when both Great Britain and GATT leaders themselves agreed that trade relations had been guided by an overly doctrinaire adherence to the open door, America had to choose sides. Domestic protectionist pressures, lack of negotiating authority to embrace such a regime, and overall principles prevented Washington from boarding the preferences train. They struck at the heart of US most-favored-nation policy, a nearly two-centuries-old policy of upholding nondiscrimination as a rule, although the US-Philippines trade agreement amounted to a preferential system (it ended in 1974) and the Canada–United States Automotive Products Agreement of 1965 also played favorites but was not prejudicial to others. Preferences also seemed like a modification of colonial relationships. The first UNCTAD conference actually only created a secretariat, to the satisfaction of the Americans, but clearly the United States stood alone. In order to head off the discriminatory Yaoundé Convention and rising negative press, Washington turned to the Organization for Economic Cooperation and Development (OECD) in 1966 to create a system of preferences generalized to all nations.[81]

When France agreed to let go of its special accord with the African nations and join the generalized system, the Americans gave the Third World a head start through special tariff treatment. Most of US business and labor organizations at this time supported the arrangement as long as American producers and workers were not hurt. While Latin Americans sought a distinct hemispheric preferential system, the United States endorsed the global one. In 1968 the Second United Nations Conference on Trade and Development (UNCTAD II), meeting in India, approved the generalized system of preferences for a variety of products seeking entry into Northern markets. Still, Third World squabbling and growing resistance in the North to a demand for duty-free treatment of manufactures and preferences for certain commodities weakened the commitment to helping the South. In the long run, the Generalized System of Preferences, which took effect in 1976 and became permanent three years later, emerged as only a temporary deal that exempted key Third World exports but limited gains for others. To be sure, rich nations granted preferences to nearly all non-OECD countries, yet there were exceptions. The United States refused to grant tariff waivers to Vietnam until the mid-1990s. In addition, protectionism in the North prevented preferential treatment for exports of key manufactures

such as textiles, glass and steel, and leather goods—products that emerging nations made well and traded competitively. Preferences were generalized across products; a truly globalized system of trade arrangements with the emerging countries never evolved. In addition, more-developed nations benefited from export favoritism. By the 1980s the attempt to restructure world trade for the gain of the South had largely failed. Generalized preferences, a bold idea nursed by structuralism of the 1950s, fell short of its promise.[82]

## North and South in the Cold War

In this era of rising expectations in the world economy, the emerging nations set out to use the US-Soviet Cold War competition to their advantage. One way was to work with nongovernmental organizations (NGOs) such as the World Bank to procure financing for development projects. Another alternative focused on keeping multinational corporate profits at home.

In 1954 the new revolutionary government of Gamal Abdel Nasser of Egypt sought financing to build the Aswan High Dam in order to generate electricity from the Nile River, promote agricultural development, and control annual flooding. The massive project would raise the country's living standard and solidify Nasser's revolution. The World Bank quickly drew up plans for financing the dam's construction, but Nasser balked when the $400 million loan came with a condition that Sudan, a British holding downstream from the Dam, must acquire an equitable share of the water and compensation for its displaced population whose villages would be flooded. The nonaligned Egypt saw Anglo-American collusion and imperialism behind the World Bank's demands, but the international bureaucrats countered that their qualified endorsement of the loan arose from economic and technical concerns. Further complications arose in 1955 over bids for construction, but the Cold War always hovered above the project. The Suez Canal, a strategic waterway that connected the Indian and Mediterranean Seas and through which two-thirds of Europe's oil was shipped from the Middle East, ran through Egypt. When Nasser announced that he would buy arms from Czechoslovakia, the British and Americans feared that the communist bloc might penetrate this part of the Middle East, jeopardize the canal's security, and undermine British prestige. In addition, Nasser soon recognized





the People's Republic of China, supported the ouster of British officials from Jordan, and expressed dislike for Israel. To boot, southern American congressmen worried about the specter of competitive Egyptian cotton entering the United States. Detesting neutralism in the Cold War, Secretary of State Dulles fostered an anti-Nasser bloc of Middle Eastern nations while publicly supporting the World Bank's financial support for the dam.

Both governments rushed to underwrite half of the cost of the Aswan Dam in order to woo Nasser; eventually the Americans stepped in with a $270 million offer. Meanwhile, the World Bank worked with the US Treasury to pressure Britain to release Egypt's large accumulation of pound-sterling reserves held in London and negotiated an acceptable agreement on Sudan's demands.[83] Yet global bankers insisted on standards of international lending by encouraging competitive bidding for the project, rather than permitting Nasser's favored German company to construct the dam. Nasser chafed under these strictures as violations of Egyptian sovereignty, but the United States precipitated a major crisis by canceling the loan in 1956 on the grounds that Egypt would be unable to complete the project. This was untrue, as the World Bank attested to Nasser's economic viability. Nasser reacted by dramatically nationalizing the Suez Canal in order to use the tolls to fund the Aswan Dam and to enthrone Cairo as the leader of the Arab world against the imperialist nations and their corporations. In the ensuing crisis, Israel, France, and Britain invaded Egypt in October and November 1956, only to be condemned at the United Nations by several nations, including the USSR and the United States. Worried that the crisis would inflame emotions against the West and allow the Soviets a foothold in crucial areas of the Middle East, an infuriated Eisenhower used economic diplomacy against Britain, threatening to cause the collapse of the pound sterling by selling off sterling reserves. Hegemonic America held the purse strings of the Western alliance. Meanwhile, Saudi Arabia issued an oil embargo against Britain and France.[84] The Europeans and Israelis found themselves cornered by friends and enemies and backed away from the canal.

The Suez Crisis had major repercussions for the world economy and the standing of the Third World within it. Nongovernmental organizations such as the World Bank continued to make loans (in this case, extending a credit to help widen and deepen the Suez Canal for passage of larger ships), but they could not

Construction of the Aswan High Dam in Egypt, May 14, 1964. Nine years before, the clash between the revolutionary Gamal Abdel Nasser and European financiers and bureaucrats over this massive project prompted Nasser to turn to socialist nations for aid. The conflict led to the Suez Crisis of 1956, when Nasser nationalized the Suez Canal. The United States ended the crisis by halting an invasion by Britain, France, and Israel that had escalated tensions in the Cold War. The project went forth some years later. (Getty Images)

prevent Cold War politics from overwhelming their economic and social reforms so embraced by Egypt and other nations. The crisis hastened the end of French and British colonization, particularly in the Middle East and Africa, and also destabilized the NATO alliance, for Paris especially grew suspicious of America's reliability. And the balance of power in the region tipped a bit more toward the Soviet Union, which stepped in with financing for the Aswan Dam in 1958. Aided by Russian heavy machinery and technicians, construction began in 1960, the dam started to fill four years later, and it reached capacity for the first time in





1976. Meanwhile Egypt became a major player in global diplomacy and regional disputes, aided by the development provided by the dam, which initially provided half of the country's electricity. Nasser emerged victorious as the leader of the pan-Arab movement. His emerging nation had successfully played the Cold War game.[85]

Victories such as Nasser's and UNCTAD's were impressive, but the developing world still remained impoverished and the North remained in control. Third World nations struggled with strict, conservative loan terms set by the IMF, which believed that these nations had to be micromanaged because they did not honor their agreements due to bureaucratic unaccountability or corruption. Abetted by a dependence on multinational corporations and a lack of substantial domestic markets, a cycle of poverty dictated underdevelopment. For example, Ecuador tried to ignore the strictures, but loans from the US Export-Import Bank and the IMF came with strings attached, requiring austere fiscal policies such as higher prices for gasoline and electricity and currency devaluation as well as allowances for multinational corporations to gain more business in the country. Even the tapping of large oil deposits in the Ecuadoran Amazon by the Texaco-Gulf Corporation in 1967 and subsequent finds of petroleum riches did not provide a solution to the country's economic woes. Revenue generated from the oil fields and a pipeline augmented exports sevenfold by 1977, and the rise in global oil demand and prices during the decade further augmented the gross domestic product. But foreign capital invested by multinational companies dominated production and export and even led to the fall of Ecuador's military government when Texaco-Gulf boycotted selling the nation's oil abroad in protest of tightening regulations.

Ecuador offers an example of the complex relationship between multinationals, NGOs, and the emerging nations—laying bare the basic inequities in the global economic system. When competition from abroad lowered prices for cacao and rice in the 1950s, Ecuador turned to bananas and became the world's top producer due to growing demand driven by America. Banana exports rose in value from $2.8 million in 1948 to $90 million by 1960, constituting nearly two-thirds of the nation's exports in 1961. Roughly three thousand domestic banana producers flourished, although exporting and marketing remained in the hands of the five largest foreign firms. At the United Fruit Company's plantation,

workers received many benefits, such as low-cost housing, safe drinking water, cheap food, hospital care, paid vacations and sick leave, and high wages relative to the rest of Ecuador. Yet bananas did not bring widespread well-being or modernization, because Ecuador's economy, like that of other countries in the Americas, relied on the big export companies. The nation made little progress toward industrialization or developing the middle class needed for urban development, management, and growth. Overall, industry's share of the gross domestic product in 1970 remained the same as it was in 1940, despite Quito's embrace of the UN Economic Commission for Latin America's recommendations for import substitution in the early 1960s.[86] This was so because the Cold War continued to deglobalize the world economy, curbing America's effectiveness in pursuing traditional free enterprise.

## East–West

Trade relations with and within the Soviet bloc reflected these security strictures on the world economy. Earlier Stalin had ruthlessly unified the COMECON countries by dictating that their production and trade be directed inward. Now Moscow sought to expand commercial exchanges with the West. Peaceful coexistence brought a defrosting of the Cold War. Supported by American farmers seeking to sell their surpluses, Eisenhower pledged at a summit meeting in 1955 to lift some of the trade sanctions that were restraining East–West trade and liberalized the three lists of CoCom controls. He counseled against preconceived notions of Soviet hostility and instead sought to encourage peace and security through the exchange of goods. Congress largely agreed, and the administration relaxed restrictions on the embargo lists. Two years later Ike ran smack up against the wall of virulent anticommunism when the British asked the United States to loosen controls on some machinery trade related to the People's Republic of China. Eisenhower advocated careful study of the issue, not so much to encourage diplomatic relations, but to facilitate natural patterns of trade between Japan and "Red" China. Congress and a concerned Commerce Department compelled him to retreat when he was accused of violating the Battle Act, which prohibited aid to nations that knowingly traded with communist countries. The Commerce Department rejected an attempt by Dresser Industries of





Dallas, for instance, to exchange data on rock drill bits for rights to manufacture a new Soviet turbo-drill. The message was clear: there would be no easing of lists of banned exports to the Sino-Soviet bloc.[87]

This rigidity began to change in the 1960s as the Cold War reshaped the dialogue on economic relations. The Kennedy administration counseled the use of East–West trade as a vehicle to improve superpower relations after the harrowing Cuban missile crisis of 1962. Specifically, the United States approved a large sale of wheat to the USSR in 1963 and advocated expanding trade with Eastern Europe. President Johnson furthered the process of liberalization of East–West trade by centralizing decisions in the White House and State Department, both of which were prone to seek détente with the Soviets. Thus, LBJ committed to bridge building by forging trade deals supported by American business and labor, and noting endorsement by the CIA and the Department of Defense. CoCom controls had not prevented the Soviets from infiltrating the Third World or building an economic base for the development of high-tech weapons systems. Limits and bans on strategic items remained because the United States was fighting a hot war against communism in Vietnam, but the administration was determined to extend most-favored-nation treatment to communist bloc countries as bargaining tools to effect change and to encourage them to engage in the free-market global economy.

America's wielding of East–West trade as a carrot or stick in shaping communist bloc behavior became the rule. The trend toward liberalization reached its apex during the administration of Richard M. Nixon, who moved toward détente with the communist bloc. As restrictions gradually diminished with China, trade rose from $5 million in 1971 to $900 million three years later. A sweeping US-USSR trade pact in 1972 led to numerous industrial contracts, totaling about $1.1 billion of imports into America, and sales of grain to the Soviets amounting to over $1 billion. The Commerce Department reduced its list of controlled items from 550 to 73 in just months, and rather than continually updating changes in strategic lists, CoCom relied increasingly on waiving items. The US requests for exemptions grew from two in 1962 to more than a thousand in 1978. Trade thrived between East and West as Moscow gained entry into the global capitalist market and the United States used trade to woo both estranged China and the USSR. Talks even began about cooperation in oil drilling, par-

ticularly after war broke out in the Middle East to threaten American oil supplies. Politics progressively intruded on East–West trade relations, however, as Congress proposed in 1974 to withhold trade privileges to the Soviets as punishment for human rights violations and restrictions on Jewish immigration.[88]

Successors applied controls according to their gauge of Soviet foreign policy. The administration of Jimmy Carter further linked diplomacy to Soviet behavior, and as a result trade began to plummet after the Soviet invasion of Afghanistan in 1979. Carter imposed a grain embargo, boycotted the Olympics, and tightened controls on technology. Ronald Reagan tried to trade as little as possible with his Soviet nemesis in order to bankrupt Moscow. Yet such punishment could not change the fact that the communist and capitalist worlds were closer than ever before, which lay a foundation for Russia's engagement in globalization after the fall of communism.

The path to integration was also furthered by the fissures within the communist system itself. It was clear that the COMECON regime represented a somewhat false economic union among the European socialist states. Many of the Eastern European satellites chafed at Soviet domination and the suppression of the market socialist reforms of the late 1960s; historic rivalries and suspicions added to Moscow's hegemonic policies that made a mockery of the push for integration. Attempts to replace CMEA centralization with planning and decision making by industrial associations also fell flat, for even such horizontal chains of command proved unwieldy and overly bureaucratic, unable to generate the financial and administrative infrastructures necessary for integration of disparate economies.[89] In essence, by the mid-1970s the American-led capitalist global economy had survived the Soviet economic offensive and stood as the hegemonic structure, although it was on rather shakier legs than before.

## European Challenge

The American open-door doctrine ruled in part because of the sheer power of the United States, but also because of the surging economies of Western Europe and East Asia, which, ironically, placed US hegemony under threat. After gluing together their coal and steel markets in the early 1950s, the Western Europeans followed the pragmatic visions of Robert Schuman and Jean Monnet along a





course of unification. The Americans looked on this European Economic Community (EEC) of six countries in 1957 as serving to contain West Germany within the democratic and anticommunist fold of nations and stimulating peace through prosperity on a continent so often torn asunder by war. In an economic sense, the Common Market of France, West Germany, Belgium, Luxembourg, the Netherlands, and Italy meant the creation of a potentially vast multinational customs union supportive of free enterprise and an open door to outsiders. So influential was the Common Market (the British term for the EEC) that its powers soon eclipsed those of the European Atomic Energy Community as well as the European Coal and Steel Community, both of which fell under its jurisdiction. By 1973 the EEC had been enlarged by four members (the United Kingdom, Greece, Denmark, and Ireland); it would add more members thereafter, totaling twenty-seven by 2009.[90] The EEC became the economic engine of Europe.

Its advent also came as a direct challenge to the extant global economic power structure. The EEC comprised 168 million people in Western Europe and 63 million in associated areas—a sizable trade bloc. The founders expected not only that the customs union would become the largest commercial entity in the world within a decade, but also that the economic organization would spill over into the establishment of a supranational political federation in which decision making would rest with the bureaucratic executive arm, the European Commission and not individual national ministers under the governing council. President Charles de Gaulle of France, who sought to elevate French power at the same time as that of the Common Market, blocked this European Commission initiative. As well, he prevented Britain from joining the Inner Six, because he viewed London as a proxy for America, which he feared would infiltrate the EEC. European supranationalism did not come to pass until the 1990s with the development of a single currency, but the Common Market emerged as a trade monolith in the 1960s by building an effective customs union.

After considerable debate within the EEC, the result was the substitution of national commercial policies with a unified approach to the world that defied America's postwar policy of nondiscriminatory trade and undermined the US hold on the global economy. The Inner Six installed a common external tariff (rather than separate national duty schedules) that governed trade in industrial

goods between the Common Market and the outside world, thereby purposefully discriminating against the multilateral open-door doctrine of the United States. They harmonized their duties—France and Italy dropped tariffs, and the Benelux nations and West Germany raised theirs—and then applied this common tariff to imports while maintaining duty-free industrial trade among themselves. In addition, the bloc established a protectionist levy and quota system on food imports, called the Common Agricultural Policy, that led to major disagreements between the French and its European trade partners over the extent of farm protectionism in agriculture-rich France. Regardless of the fracas (much of it provoked by de Gaulle's drive for French recognition as leader of the new Europe), Western European trading rights took precedent over those of non-Europeans, particularly the United States. Americans actually welcomed this Eurocentric policy for political reasons, which outweighed the economic rationale for multilateralism; after all, the unification of Europe (and the linkage of Japan to the West) was a great success story of US foreign policy. But the potentially harmful effect of European trade and consuming power on US economic prospects could not be ignored.

In every economic category, the EEC emerged as a powerhouse that challenged US leadership and hegemony. The gap between American and European production was fast closing, even in the 1950s. European steel production rose to an annual level of 62.9 million tons by 1959 (up from 36.6 million seven years earlier), while US output stagnated at 84.5 million. By 1960 Common Market industrial production outpaced American manufacturing, decreasing the United States' share of global gross national product while the EEC's rose throughout the decade. America remained the single largest trading nation, but by 1960 the combined Inner Six outstripped the United States in trade volume. The Europeans also caught up in exports, as the American trade surplus with the region began to wane. Of course, this was all largely inevitable as recovery from World War II took root by the late 1950s, and the United States could not possibly maintain its tremendous economic edge of the immediate postwar years. But the Inner Six and the British-led seven-nation European Free Trade Association—a looser association than the EEC that resisted political integration—threatened to become inward-looking trade blocs that might close the door to the United States. Indeed, exports to both entities began to decline, raising alarms across





the Atlantic about European protectionism. At the same time the United States suffered from inflation at home, incurred in part by unsustainable domestic economic expansion paid for by seemingly unsustainable exports to Western Europe.

American salvation lay, in part, in trade negotiations to deal with Common Market protectionism. During the Kennedy Round of GATT (1964–1967), the United States tried to reassert its leadership over the Western economic system by promoting traditional trade liberalization toward Europe and Japan. Of particular importance was liberalizing the EEC's Common Agricultural Policy so that America could benefit from its comparative advantage in farm trade and sell its surpluses. Washington also sought to lower the external industrial tariff so that American firms would manufacture at home and export rather than try to jump trade barriers and invest and produce in Europe. The French refused to play, for they understood that the Common Market rested on their access to German agricultural markets in exchange for opening to West German industrial products. When the Americans tried to sneak Britain into the EEC to undermine French intransigence, de Gaulle vetoed British membership, reading the ploy as an attempt to halt integration of the Common Market itself. The Europeans did lower industrial tariffs at the Kennedy Round, although trade in chemical products and steel remained plagued by ingenious nontariff barriers. Furthermore, transatlantic agricultural trade remained stymied by the Franco-German quid pro quo as well as longtime protectionist tendencies, as it does today. The effect was clear on the United States. American grain sales to the Inner Six in 1969 totaled less than half the figures from just three years before.[91] The EEC hindered US trade policy, despite a massive effort by Washington to maintain the open door.

The figures on the Western European economy were remarkable, but regional economic behavior turned out to be even more transformative for the global economy. Although the Inner Six generated just one-third of US production by the mid-1960s, the real purchasing power of the customs union reached half that of the United States. The region had begun to shift from the hierarchies of production and workers to a consumer area in which workers enjoyed rising incomes and spending power. Europe became a magnet for American multinational enterprises that injected mass-marketing techniques into the workplace

and literally changed Europeans from their social stratification as laborers, homemakers, salarymen, and conservative executives into affluent and chic consumers. Advertisements depicted managers as well as workers skiing, eating at fast-food restaurants, and driving sleek automobiles. By 1965, 4.2 million color televisions were sold in France, where only five thousand had been bought in 1954—the consumer revolution brought Europeans into stores. Belgians abandoned bicycles to travel by car, German washing machines and Italian refrigerators sold in Holland, and EEC members shared in markets ranging from shoes to food, thanks to lower national tariffs that unsealed borders and allowed trade in consumer goods to flourish. Buying on credit became more acceptable. As Jean Monnet noted, Europeans would equal the US standard of living within fifteen years of the EEC's creation. His prediction was fairly accurate; the EEC's gross national product rose by an average of 3.5 percent per year until 1974, while American growth amounted to 2.1 percent over the same period. US consumption figures also lagged European. As disposable income doubled for wage and salary earners, the volume of trade tripled within the Common Market, showing that European purchasing power (and habits) had changed dramatically.[92]

## Multinational Enterprise

One way to take advantage of this departure from the old productionist ethic to the new consumer model, as well as hop over European trade barriers, was for US companies to invest in plants in the region. In other words, they could engage in trade from inside the Common Market and Free Trade Area rather than attempt to penetrate Europe from the outside. Multinational enterprises expanded rapidly in the region. Canada still remained the top place for US investments, with Britain second, but the EEC (with the addition of the UK in 1973) surpassed America's northern neighbor in the 1970s. Capitalizing on opportunities in the region, firms nearly tripled their investments in the Common Market—despite rather tepid support from Washington, which viewed foreign investment as a drain on US international payments and a diversion of capital from the domestic economy. The Johnson administration eventually forbade large-scale foreign investments because of the ever-worsening payments imbalance—a shortfall caused by trade deficits and capital exports. Yet multinationals also planted





the structural and ideological seeds of globalization; academics viewed them as an alternative to nation-states and their mercantilist policies. The move of American corporations abroad shrank the world's geography, sending business, people, and technology around the globe in ways that bypassed, negotiated with, or simply overwhelmed nations. Market advocates applauded the advent of these globe-trotting business firms as carriers of dynamic private enterprise, mutual prosperity, world federalist government, and ultimately peace, regardless of their reputations as profit-seeking, uncontrollable, cowboy capitalists lacking moral and social consciences—unlike their European counterparts.

While EEC multinationals seemed to invest in social causes, the American multinational offensive saturated Europe with consumer products, provoking a backlash that had more political consequences than economic. European anti-Americanism, perception of overregulated economies, and labor turmoil had scared off most big potential investors, but the easing of restrictions and the recession in America jump-started multinational activity abroad. American corporate direct investment in Europe nearly quadrupled, from $4.6 billion in 1958 to $16.2 billion eight years later, a sum roughly one-third of all US direct investment worldwide and the peak of the American share of the world market. Companies targeted visible and rapidly growing sectors, such as food, cosmetics, and household appliances, that brought high profits. In automobiles, the Americans sold low-cost cars with new gadgets and decent power that competed well against European companies, especially French low-cylinder models. Chrysler alone made more than all French car producers combined, and General Motors' annual sales outpaced Holland's total gross national product by 10 percent. American marketing agencies such as J. Walter Thompson set up shop in rebuilt Frankfurt and ran accounts across Europe for 117 items, ranging from Kraft foods to De Beers diamonds. General Electric's two hundred thousand products overwhelmed European industry, while American-style supermarkets cropped up in major cities, replacing the regulated individual sellers with the practice of self-service under one roof. So effective were the US corporations, their techniques, and their advertising that de Gaulle and other European (especially French) voices warned of Washington's imperialism through the "Americanization" of Europe or the "take-over" of Britain. Even in Canada, where US companies developed raw materials resources under few restrictions, a wave of nationalism

led to criticism of American corporate domination and calls for independence from the continental integration of North America.[93]

Realizing that American multinationals produced more than the EEC itself, experts counseled Europe to organize its own such corporations across the Inner Six nations and mobilize capital to meet the American challenge in the oncoming high-technology markets of telecommunications and information. Europe could not shut out the tide of investments from across the Atlantic, so it adapted. European firms partnered with US know-how, such as the old French perfume industry with synthetic scent makers in New Jersey, and allowed Americans to take over eleven of France's leading perfume companies by 1970. Britain, Germany, Switzerland, and Italy were swept by chain and self-service stores (85 percent of Americans bought from such entities), and Kraft, Kellogg's, and other companies gained major market leverage in Europe. This did not mean that small provisioners disappeared, but their numbers began to wane as multinationals could cut prices by just 10 percent and bankrupt local concerns. Meanwhile, decrying violations of the capitalist ethic of competition, American tire makers like Goodyear and Firestone got around regulations by offering French car producers discounts on tires. In the end there was much grousing about the American challenge, but even the French drank cokes and bought Mobil gasoline. And US corporations turned increasingly to the German market by the early 1970s, deterred in part by French regulations even after de Gaulle's departure had the government scrambling to attract US dollars. Multinationals dodged the national label for regional and global identities.[94]

Despite the clash of economic civilizations, simultaneous with the birth of the European Common Market a virtual global revolution in transportation and communication greatly facilitated the expansion of multinational corporate activity. Multinationals (with Washington's backing) oriented much of their investment activity toward the Third World, especially as Congress frowned on foreign aid. In the North the dynamism of multinational enterprise blossomed in large part due to new technology generated by the United States. America accounted for 69 percent of the research and development in major countries. International Business Machines (IBM), for example, dominated the computer market in Japan and Western Europe as it used regional marketers to promote its products. Foreign sales accounted for 20 percent of IBM's revenues by 1960, and





54 percent by 1979; in 1964 the company had installed 62 percent of the computers in Western Europe. IBM retained total control of its foreign affiliates even in the face of governmental pressure to sell to locals.

In transportation, people and freight advanced around the globe at an ever-quickening pace. After investing a quarter of its net worth on developing a long-range passenger jet, Boeing sent the 707 across the Atlantic in 1957. The flight shrank time and space, allowing American businesspeople, in particular, to travel rapidly, comfortably, and cheaply to Western Europe in half the time of previous, multistop flights. Passenger numbers rose from 4.3 million to 18.9 million from 1957 to 1973 (and tourists numbered 278 million by 1980, and 880 million in 2009, with total passengers amounting to over 2.3 billion by the latter date) as tourists also took advantage of low-cost fares. In 1969 the Boeing 747, a wide-body plane designed to carry cargo, made air travel even more efficient by nearly halving the seat-per-mile cost. Subsequent models boosted capacity to 233 passengers traveling between New York and Tokyo, and by 1989 commercial jets flew 412 people for twenty hours at subsonic speeds. Charter flights dropped costs even more, and it became common to see young people setting out for Europe or America and Canada. For first-class travel and business flyers, an Anglo-French consortium built the Concorde, which began the first regularly scheduled supersonic flights in 1976 from London and Paris to New York and Washington, DC. For more than twenty-seven years the Concorde flew across the Atlantic in just four hours; its routes expanded to include Asia and Latin America; but a crash in Paris in 2000, and prohibitive operating costs, stopped Concorde service altogether. By this time the air travel revolution, as one historian has noted, allowed for "the translation of prospects into actual foreign investments" by furthering the process of globalization.[95]

Commercial transport also followed this globalized pattern of expansion through efficiencies wrought by new technology. Air service expanded as the number of revenue-ton-miles for air cargo on international flights grew 866 percent between 1957 and 1973. This set the stage for vast market growth in jet freight in the following decade, but there were also other options available for trade and multinational commerce. In 1960 two American trucking lines standardized trailers for moving goods between ports, and other companies soon jumped into this container shipping business. Soon container ships plied the seas and sped

Flight attendants on the new Boeing Jet Stratoliner, March 21, 1956. Introduced in 1937, the Boeing 307—this is a model used for training—sported a new interior. This jet held ninety-eight passengers with comforts such as air conditioning and individual air vents, running water, and reading lights. The Stratoliner preceded the larger jets, such as the 707, that soon crossed the Atlantic with business executives on board. Air travel became less costly and more efficient, thus shrinking the business world. (© Bettmann/CORBIS)

the flow of trade across the Pacific and Atlantic Oceans, although by the 1980s many were too large to transit the Panama Canal. In addition, large vessels specially designed to hold up to two thousand automobiles, and tankers built to carry vast stores of oil and liquefied gas, expanded the shipping industry and integrated transportation systems around the world. The transportation revolution fueled the surge of enterprise across the Atlantic and beyond; by 1966 the volume of international trade in manufactured products more than doubled the rise in global production, accelerated in large part by plummeting freight costs that led to further integration of the world economy. Container ships spread





from the Pacific to the North Atlantic, Mediterranean, and beyond by the 1980s, and containerization was so ubiquitous that long-distance trade skyrocketed. Capacity expanded by 10 percent per year in 2001–2005, and the vessels grew to such enormous sizes that many could carry four thousand 40-foot containers. Put another way, South Korean, Japanese, and Chinese companies launched container ships capable of carrying 1.3 million 29-inch color televisions or more than 50 million mobile phones. Plans existed to more than double the number of boxes, enough to create a sixty-eight-mile-long line of trucks for off-loading. The only constraints were geographic, for the world's busiest shipping lane, the Straits of Malacca between Malaysia and Indonesia, as well as the Suez Canal, placed natural limits on these behemoths.[96]

New communications technologies also aided the explosion in multinational enterprises. The telex made possible fast and clear communications to orchestrate deals and manage affairs in faraway places, while transatlantic telephone calls—using the first microwave amplification cable—soared from 250,000 in 1957 to 4.3 million in 1961. Both telex and telephone allowed American corporations to monitor their holdings overseas from US headquarters, and metropolitan centers around the world were increasingly linked through communications networks. In the decades to come, satellites provided the means of integrating remote areas of the globe into the world economy. Furthermore, television (in the midst of a boom at this point) provided visual perceptions that both introduced people to the exotic and also transformed the foreign into more familiar images. The thinking of executives changed as their vision and knowledge of opportunities overseas broadened. Managers the world over shared an image of the world that defied borders and distances. Technology started to collapse time and space by making even politics and diplomacy instantaneous. By the 1970s, technology empowered people with information through such personal electronic media outlets as radio, VCRs, cassette tapes, CDs, and person-to-person video links through satellite. By the beginning of 2010, more than 4.6 billion subscribers worldwide—or 90 percent of the planet's population—had mobile phones (up from 55.5 million just fifteen years earlier). In Canadian media theorist Marshall McLuhan's terms in 1962, a "global village" had arisen in which innovations in communications and transportation not only increased movement of goods and services

but created interactive bonds that harmonized and even homogenized tastes and cultures.[97]

## The Demise of Bretton Woods

Although the United States took pride in its role in promoting European integration, prosperity, and competition, the rise of its friends boded ill for its overall international accounts. These paid for the US presence overseas in the Cold War. A direct result of Western Europe's recovery, the American balance-of-payments deficit reflected both a dwindling US export surplus, the outward flow of direct investment, and Cold War military and aid expenditures. Under the rules of the Bretton Woods exchange system, nations holding stashes of dollars could cash in their growing reserves for American gold upon demand rather than hold dollars entirely as interest-bearing notes. The United States honored this agreement because gold was the economic and psychological foundation of the international monetary system, and the dollar was the key currency that undergirded American power and leadership.

By 1958 ten European governments allowed their currencies to be converted more freely into dollars. This signaled the health of regional economies (and thus the success of American postwar recovery policies), but convertibility quickened the drain of gold from the United States. America's gold stocks dropped by $2 billion that year and plummeted further the next. Deemed the price to pay for its leadership of the Western alliance, this conversion process led to the loss of nearly half of US gold reserves between 1958 and 1968. Washington tried to maintain the dollar's value by trade promotion and other measures. Instead of devaluing the dollar, the US Treasury stomached stopgap remedies and urged more multilateral burden sharing within the alliance. Yet the payments imbalance grew worse, giving de Gaulle and others leverage over US foreign policy, because they could threaten a run on Fort Knox.[98]

Spending on the Vietnam War exacerbated the deficit, as inflation wracked the US domestic economy while global economic instability continued. With expenditures for the war in Southeast Asia running at $10 to $14 billion a year, Congress worried that the conflict could destroy the world monetary system. At





home, the negative impact was clear. Wages rose with prices, as war spending doubled the consumer price index in 1966 and 1967 and almost tripled it the following year. Lyndon Johnson was well aware of the impact of the Vietnam War on inflation, the bogeyman of the American economy for decades afterward. War and aid expenditures added to tensions within the Western alliance. As central banks persisted in trading dollars for gold, allies intensified their questioning of America's role in the world and especially in overseeing the defense of Western Europe. The economic situation now threatened American foreign policy; Washington seemed headed toward a tough choice of either defending the dollar or defending Europe.[99]

Clearly the bottom was fast falling out of the Bretton Woods system. A financial crisis in Britain in 1967 finally led to the devaluation of the pound, a currency long under pressure but saved by periodic American bailouts to prop up its value. When the Suez Canal closed during the Six-Day War in the Middle East, British exports plummeted and Arab countries exchanged their large sterling holdings for dollars, thereby fleeing the pound. This led France to demand that the dollar be complemented by some other form of currency in order to stabilize the monetary system and end America's practice of paying for inflation at home by running deficits overseas. The result was the Eurodollar, an expatriate currency market bigger than the reserves of America and all central banks combined, as well as an IMF-sponsored system of special drawing rights that provided more international liquidity and overcame the national payments deficit. Neither measure sufficed. As the gold drain continued into early March 1968 (in one day, the United States lost $179 million in gold), hopes waned for the Bretton Woods system's continuation. When bankers agreed to sever the dollar's link to gold in private markets, gold prices began to rise. This tenuous new deal was dependent on confidence that the overvalued dollar could be defended even as private capital flows soared upward. The Americans barely contained the instability by clamping down on outflows of capital, but much tension existed within the Western alliance over whether dollar-rich nations, such as West Germany, should revalue or whether the French should devalue the franc, which de Gaulle ultimately refused to do. Experts broached the idea of ending altogether the fixed exchange-rate regime of Bretton Woods and allowing the dollar to

"float" against other currencies. Essentially, this meant that the United States would go off the gold standard, ending the link of bullion to dollars and possibly issuing a blow to American hegemony.

After neglecting the monetary system in its first two years, the Nixon administration turned to a more dramatic fix that midwifed the modern era of globalization. A debate emerged as to whether domestic inflation was the culprit, as monetarists believed, or whether the American payments deficit—worsened by aid burdens—needed to be addressed. Nixon focused on inflation, which was spiraling out of control and threatening both the trade surplus and monetary convertibility. He also told frustrated world bankers that the "dollar may be our currency but it's your problem."[100] Actually, the president continued previous US policy of fiscal restraint, and such austerity measures resulted in an international payments surplus in 1969, the first in nine years. The accomplishment never occurred again, however, and mounting unemployment and debt worried the administration. Losses in Congress for Republicans during the midterm elections of 1970, moreover, alarmed a White House looking toward reelection in 1972. It was time to reflate the economy, but this brought a wave of speculation against the dollar in global currency markets in 1971.[101]

Bretton Woods had made the dollar the world's key medium of exchange, against which all other national currencies were measured, but under international monetary rules the dollar could not be devalued to correct a payments deficit. This left the conversion of dollars to gold, yet the process was clearly dysfunctional and unworkable. After the American payments deficit was projected to reach a huge $22 billion for the year, Nixon acted. Rather than focus solely on Europeans, especially the West Germans, to increase their share of the NATO defense burden, recommendations emanating from the Treasury Department counseled an overhaul of the Bretton Woods system. This could be done in a variety of ways, many of them already on the table, but most effective would be forcibly realigning currencies and, in the event that the European run on the greenback continued, suspending the convertibility of dollar reserves into gold and negotiating a new, flexible monetary regime entirely.

The subsequent actions that gutted the Bretton Woods fixed system of exchange were less revolutionary than evolutionary, although the unilateralism followed by the United States certainly jarred America's allies and tested the





multilateral ethic. The new policies announced by the administration after a historic meeting of officials on August 15, 1971, were tough, and the rhetoric was even harsher. Ominously, no State Department member was invited, and even National Security Advisor Henry Kissinger was unaware of the gathering. Instead, economic nationalists ruled the day. Led by Treasury Secretary John Connally, who had informed international bankers that the United States would no longer engage in a system that did not achieve America's long-term interests, the administration imposed its bold New Economic Policy of wage and price controls, a tariff increase, and, most important, a suspension of dollar convertibility into gold. By slamming shut the gold window, Nixon appealed to a domestic audience but alarmed those at home and abroad who cherished monetary and trade liberalization. Later he admitted his hasty error, but the president sought a new international monetary system to prevent the dollar crisis from interfering with his domestic economic program and reelection bid. Such crude mercantilism shocked those who looked to the United States as the proponent of the open-door capitalist system now that the quarter-century-old Bretton Woods system was on life support.

Nixon stunned global financial networks into abrupt change. He refused to depreciate the dollar, so central banks largely went along with the new approach by letting their currencies float downward. France initially imposed controls on capital in order to bolster the franc before giving way. Japan proved to be the staunchest defender of the old system, as Tokyo attempted to maintain the rate of 360 yen to the dollar by purchasing $4 billion in reserves in the first two weeks after the Nixon announcement. Japan looked like a dollar hoarder, but it could also be browbeaten into accepting the floating regime as a country dependent on trade and defense support from the United States. Like the other nations, Japan succumbed to the realities of US power.

In November 1971 the ten big capitalist powers met in Washington to sign the Smithsonian Agreement. In return for America devaluing the dollar to $38 per ounce of gold, Japan appreciated its currency (making its exports more expensive) by a whopping 16.9 percent and West Germany revalued upward by over 13.5 percent. Whereas the Bretton Woods accord permitted nations to trade currencies within 1 percent of each other as a stabilization mechanism, the Smithsonian Agreement widened the bands to 2.25 percent. Even this arrangement

turned out to be temporary, as the entire monetary system soon turned ever more volatile. Over the next two years dollars poured out of the country again. This prompted more diplomacy to force appreciation of foreign currencies as the dollar was revalued again from $38 to over $42 per ounce of gold. After European currency markets closed in early 1973, the market took over by allowing free-floating of currencies that moved up and down against the dollar. The Europeans and Japanese opposed this direction, viewing a declining dollar as a burden on their trade. Yet they also were importing American inflation if they stayed the course (something that they were to suffer anyway because of their dependence on the US economy). Above all, the United States refused to support the dollar by artificial means. When new treasury secretary George Schultz announced that "Santa Claus is dead" in 1973, Bretton Woods was buried.

The overhaul of the monetary system had immediate success for the Americans and a lasting impact on global economic governance. Clearly the United States had become less competitive as the dollar had become overvalued, and thus the Nixon economic shock had been designed to keep investments at home and sell exports abroad. The Bretton Woods institutions—the IMF and World Bank—saw their job descriptions altered. The former was no longer needed to oversee national controls and supply payments assistance to developed nations. Instead, the Fund turned to integrating Third World nations into the global economy, training officials in the practice of opening markets and joining the GATT trade regime. In short, the institution emerged as an agent of neoliberal, free enterprise, market ideology. The World Bank joined in this movement, continuing its focus on financial and technical assistance to developing countries and also seeking safeguards for international investors in the Third World. Meanwhile, as capital controls were eased, US multinationals resumed their headlong rush into overseas markets to add to their dominance. And because the Europeans were still a quarter century away from establishing their own single currency to compete with the Americans, the dollar resumed its privileged position as the world's medium of exchange. The floating dollar set the foundation for multilateral openness; global trade and financial expansion underlay the market revolution and globalization process of later decades.[102] In the short haul, the Nixon team and the world faced a world economy in trouble.



## 3. *Prying Open the Door*

AT roughly the same time as market forces emerged in the international monetary regime, the advanced nations experienced the worst downturn in their global economic fortunes since the Great Depression. In the United States, inflation shot up followed by interest rates at record levels. Unemployment also jumped, while the real gross national product dropped by 2 percent. Similar problems occurred in the rest of the industrial world as inflation accelerated in the early 1970s and hit an average rate of 13 percent in 1974 in the ten largest noncommunist nations. While prices had risen roughly 2.5 percent during the mid-1960s, from 1968 through 1975 consumers from these countries paid between 47 percent and 127 percent more for goods. Experts blamed an overregulated economy (prompted in part by new environmental protections), self-indulgence, government entitlement programs, and America's monetary hegemony that allowed for inflation to be transferred across borders by other nations' addiction to cheap US credit. One major factor in inflation and the downturn arose from the explosion in the prices of raw materials—namely food but most notably petroleum. The skyrocketing cost of oil seemed to defy standard economic predictions of correlating prices to boom and busts in the business cycle as well as American effectiveness to control the global economy and gain from its open-door ideology.

The United States' plunge due to soaring oil prices had a ripple effect on the world economy. Americans represented just 6 percent of the world's population but consumed nearly a third of the world's oil. After World War II, US suppliers managed to limit imports, dominate the tremendous domestic market, and keep prices low through modest excise taxes. As a result, low retail costs sparked consumption. The gap between US consumption and global use widened, although overall world oil demand doubled every decade since the war. Lacking oil fields of their own, Western Europe and Japan imported vast amounts, but in 1950 even the United States became a net importer. The simple equation of demand combined with insufficient supply led to price increases. Sensing an opportunity

for tremendous profits, oil-rich nations formed the Organization of Petroleum Exporting Countries (OPEC) in 1960. This producer cartel aimed to control supply and raise prices in pursuit of high revenues.

OPEC posed the most significant economic challenge ever to the nations of the North by a Third World entity. The advanced nations had long dominated world oil markets, helping to ensure a favorable political environment, military protection, and profits for the major oil companies—the Seven Sisters (five US companies along with British Petroleum and the Anglo-Netherlands firm Royal Dutch Shell). These "majors" built an oligopoly to divvy up oil fields, set prices, and undersell competitors. They held the producer nations hostage, granting small, fixed royalty payments in return for total control of global markets. Host governments managed to increase royalty and tax revenues as imports into industrialized nations rose, but the Seven Sisters continued to dominate noncommunist petroleum production, blocking any other companies from entering any part of the exploration, refining, distribution, and marketing processes. Yet such hegemony was in jeopardy. High Western demand, rising Arab nationalism, and emerging nations' discontent with their paltry returns in the American-led global economic system led the CIA to conclude in 1960 that "there may develop a kind of 'creeping' nationalization under which the companies gradually retreat to a position where they are little more than managing agents of the local governments."[103]

Several factors led to OPEC's ascendancy. New oil-producing players like Algeria, Libya, and Nigeria entered the game, more refineries were built to increase competition for the Seven Sisters, and skyrocketing demand reduced the oligopoly's ability to control prices by restricting supply. In addition, when the Eisenhower administration slapped quotas on imported oil in 1959 in order to protect domestic producers from cheap competitive foreign oil (a betrayal of its market dogma), the Seven Sisters saw the oil business slipping away. They produced 90 percent of non–North American and communist nation crude oil in 1952, but by 1968 they accounted for only 75 percent of the total. Competition and protectionism forced the majors to drop the official posted price of oil, which meant that royalty payments would fall for host nations. In self-defense these states, led by Libya and Saudi Arabia, renegotiated royalty deals with the majors and accumulated growing foreign exchange reserves as a result. Infuri-





ated by the American quotas, five countries—Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela—formed their OPEC petroleum bloc. The cartel managed to keep the posted prices from falling throughout the 1960s, but it could not force America to ease quotas or convince companies to reduce production and thus raise prices. OPEC's weak hand changed in 1970, however, for the Western industrial nations had exposed their dependence upon oil for energy use. By this time the cartel controlled the flow of the most important commodity in the world.[104]

OPEC seized the opportunity presented by the vulnerable industrialized nations. By 1972 Western Europe and Japan relied on oil for about 60 percent and 73 percent, respectively, of their energy needs (and the Americans for nearly half), four-fifths of which came from the Middle East and North Africa. Libyan dictator Muammar Gaddafi precipitated the oil revolution in 1970 by threatening to nationalize independent giant Occidental Petroleum and then cut production. Unable to gain backing from Western governments or the Seven Sisters, Occidental caved and not only raised its prices but also granted Libya a 20 percent increase in royalties and taxes. Other independents bowed, too, and OPEC made similar demands to the majors at the end of the year. Faced with a unilateral severing of oil supplies, the Seven Sisters signed a five-year agreement in 1971 that raised Persian Gulf oil from $1.80 to $2.29 per barrel with a requirement for an annual rate hike to offset inflation and an increase in royalties. The majors received a five-year lock on prices in return. The falling dollar during the demise of Bretton Woods undercut the price of oil; a new oil accord took account of fluctuating exchange rates and adjusted the posted price upward to $2.48 per barrel. Occidental's owner, Armand Hammer, warned, "Everybody who drives a tractor, truck, or car in the Western world will be affected" by OPEC.[105]

This was just the beginning of OPEC's muscle flexing. Independent oil companies joined Saudi Arabia, Qatar, and Abu Dhabi to discuss augmenting host-nation ownership of production facilities. Such nationalization would begin at one-quarter ownership and rise to 51 percent by 1982. By 1973 Libya seized total control of a dozen oil companies. The next year the shah of Iran expropriated all petroleum production facilities, and then Kuwait compensated British Petroleum and Gulf Oil $50 million for their joint concession in the country. By

mid-decade, the long-standing ARAMCO holdings of Exxon, Mobil, Socal, and Texaco were handed over to the Saudis in exchange for marketing rights for the Dhahran fields; Baghdad took over the Iraq Petroleum Company holdings; and Venezuela completed expropriation of foreign oil concessions. Qatar and Dubai nationalized foreign holdings by the end of the 1970s. The Seven Sisters' oligopoly ceased to exist in reality.

Consumers, not companies, were the real victims of the OPEC revolution, however. The majors continued to benefit, because the posted price was frozen for five years, despite surging demand for oil that naturally inflated prices. In addition, inflation in the West and dollar devaluation kept real earnings at modest levels. Thus, in early October 1973, OPEC and the Seven Sisters entered into negotiations to raise the price of oil. The cartel demanded a 15 percent increase in prices to offset the dollar's recent depreciation. The majors delayed the talks, which turned out to be a big mistake. Just two days before these meetings, the Yom Kippur War erupted, pitting the Organization of Arab Petroleum Exporting Countries (a complement to OPEC born in 1968 after the Six-Day War to use oil as political leverage) against the Western states, consumers, and companies who sided with Israel. When the majors jumped at the 15 percent price rise, Saudi oil minister Ahmed Zaki Yamani told them that now OPEC sought a 100 percent hike. The multinationals adjourned for two weeks to consult their governments. In their talks with the Nixon administration, they warned that backing Israel might jeopardize the "whole U.S. oil position in [the] Middle East."[106]

Sure enough, within days the Arab OPEC states more than doubled crude oil prices to $5.12 per barrel, and Libya and Iran went beyond that figure by auctioning their supplies to the highest bidders. The cartel then decided to cut back production by 5 percent a month and slapped an embargo on exports to the United States until Israel conceded territory in the war. By December 23, OPEC unilaterally doubled the price of Persian Gulf oil to $11.65 per barrel. The Seven Sisters consented, knowing that Western consumers would bear the brunt of the higher cost and that Latin American and African output could fill any shortages. President Nixon warned Americans of impending energy shortages, even though, like previous administrations, his had allowed the majors to run the international oil business.

Sheikh Ahmed Zaki Yamani, oil minister for Saudi Arabia, December 1973. Yamani led the OPEC nations in their successful demands to raise oil prices. The oil-producing countries and kingdoms rewrote the rules of the world economy, and reshaped the power structure, after the first oil crisis of 1973. (Getty Images)

The oil-exporting nations could not lose in playing pure market economics as long as demand stayed firm and supplies remained limited. They completely controlled prices, negotiating among themselves over production rates in a show of producer unity. Saudi Arabia and Kuwait, the major producers, led the way in cutting production (and absorbing the costs) to keep up the price. Market conditions remained so tight that companies capitulated to OPEC, receiving technology and transportation contracts for their loss of ownership to the oil states. As for the consumer nations, in 1974 the United States tried to persuade Japan and Western Europe to form a consumer cartel to boycott purchases of oil and take economic or even military action against anti-Israeli producer states. America's allies refused, preferring dialogue with the nations on which they depended for foreign oil. They did agree to an American plan to create the International

Energy Agency to stockpile and share oil and looked to develop alternative sources of energy, but by and large the industrialized countries did not cooperate with each other. While Washington placed faith in the new agency and proposals to break the unity of the producers, the Europeans and Japanese signed bilateral agreements with OPEC that undercut a consumer bloc. The Americans resorted to warning or persuading their friends to end the destabilizing impact of price increases on the world economy, but even such allies as the shah of Iran sought to make as much profit as possible on the backs of US consumers. Oil had opened the door to economic blackmail over the North.[107]

The entire global economy had been restructured by the OPEC oil crisis. OPEC spurred a massive transfer of wealth that boosted the international payments position of the producer states, undercut the finances of the industrialized world, and further impoverished Third World countries not blessed with oil by sticking them with higher import bills. By 1977 America imported over one-quarter of its energy supplies from abroad, nearly triple the portion from 1960. Like its Western European and Japanese counterparts, the United States relied on OPEC, which enjoyed earnings of $140 billion, a sevenfold boost in revenues since 1973. The oil sheikhs spent into deficit by the late 1970s, but they were assured of revenues because they owned the oil. Throughout the world, dependence on oil depressed economic growth due to higher prices. The situation most hurt the Americas and Africa, though less so Asia because many of the developing nations (as well as Japan) paid for their petroleum by augmenting exports of manufactures to the West. Doing so, however, instigated protectionist pressures from manufacturers in the United States, such as automakers who now faced a tide of cheap but well-made and appealing smaller cars from abroad. Less enamored with American power after the Nixon monetary shock, Western allies turned increasingly to selling Arab nations arms and goods in order to placate the oil ministers in OPEC's headquarters in Vienna. Meanwhile Japan embraced the Arab world, receiving oil in return for Nissan's becoming the auto sales champion in Saudi Arabia. The world economy entered an era of transformation to globalization, in which America remained dominant but increasingly only one power among many.[108]

Under the leadership of Saudi Arabia (OPEC's biggest producer and exporter, holding the world's largest petroleum reserves), the oil nations ably





manipulated output according to whether the world was in a period of excess or tight supply, and amassed huge financial reserves accordingly. The Gulf States did not seek inordinately high prices that might choke off consumer demand and undermine the oil-based world economy. They also noted that the North sought other sources of oil in the North Sea, Alaska, and the Soviet Union and engaged in conservation efforts by buying smaller cars. The Saudis clamped down on the efforts of aggressive OPEC nations with smaller petroleum reserves but ambitious development plans, such as Venezuela, Iran, Iraq, and Nigeria, to curb production by either absorbing reductions in output in slack times (1978) or increasing output when supplies were restricted (1979–1980). They also worked to moderate radical political policies. By and large the West adapted to higher gasoline prices and grudgingly accepted stabilized prices. There was a price to pay for this approach, however, as auto factories closed throughout the US Midwest, and employment (as well as prices) rose. President Jimmy Carter declared war on energy crises and urged Americans to moderate their consumer habits, but the United States was unable to shirk its addiction to imported oil.[109]

Revolution in Iran in 1978 brought a crashing end to Saudi-led moderation. The West had emerged from the worst of the recession by late 1975, and demand for oil resumed. But Iran, which exported 17 percent of OPEC's oil, fell into turmoil that resulted in the overthrow of the shah and the cutoff of petroleum supplies to the West by 1979 under an Islamist government. The Gulf States largely filled the gap, but companies and consumer nations began stockpiling oil to offset predicted shortfalls in supply. Prices shot up on turbulent world oil markets. OPEC raised prices in December 1978, the first significant increase in five years, and both long-term contract and short-term flexible "spot" markets panicked after the Iranian revolution. All oil not under contract was sold on this spot market, which adjusted to market conditions, and volatility around the globe spurred spot sales well above the set contract price of $13.34 per barrel of Saudi Arabian light crude in early 1979. Even Saudi Arabia could not prevent free-for-all price hikes and disorder in the world oil economy. By March 1979 OPEC announced a 14.5 percent increase in the cost of a barrel of oil. In July prices rose again. The departing US secretary of energy, James Schlesinger, announced, "We face a world crisis of vaster dimensions than Churchill described

a half century ago—made more ominous by the problems of oil. . . . The energy future is bleak and is likely to grow bleaker in the decade ahead."[110]

The seller's market soon turned, although the reprieve for consumer nations was temporary. By mid-1980 Saudi production and world consumption leveled out, but war between Iraq and Iran in September led to the cessation of oil exports from both nations. World supplies fell by 10 percent, allowing OPEC to raise contract prices to $33 per barrel and the spot price to $41. This second oil shock precipitated soul-searching about America's coddling of the shah and Israel and whether consumer interests (the market) should prevail over foreign policy concerns. Saudi Arabia and other OPEC nations lost some faith in the reliability of the United States to lead the world and specifically stabilize the Middle East, particularly during the fifteen-month hostage crisis in Iran. In these dark days for consumer nations, experts began to predict years of uncertainty ahead for the global economy and an end to American open-door multilateralism.

By the early 1980s, OPEC proved its own worst enemy as its members' wealth and diversity tore apart the consensus that had so enriched the organization. Substitutes for oil, such as natural gas, nuclear power, and coal—stimulated by high energy costs created by OPEC—combined with recession to meet global demand. Conservation efforts within industrial nations also helped lower prices, as did the dumping of oil by companies eager to avoid high interest rates that accompanied large inventories. Furthermore, new suppliers jumped into the market to whittle away at OPEC's dominance. The USSR raised its exports to the capitalist countries to earn more foreign exchange; Britain and Norway entered the oil business with discoveries in the North Sea; Brazil, India, and China raised their output; Americans looked closer to home for secure suppliers in Canada, Mexico, and Venezuela. Between 1980 and 1990, oil imports from the Western Hemisphere swelled by 240 percent, to 729 barrels, while those from the Middle East dropped by one-quarter to 681 barrels. Whereas OPEC held 63 percent of the world market in 1973, its share fell to less than a third ten years later. As a consequence, revenues for Saudi Arabia tumbled from $102 billion in 1981 to just $37 billion in 1983, and the Gulf states suffered equally. In 1983, after the Saudi oil minister Yamani noted that the organization's prices were too far above what the world market could bear, OPEC, for the first time, cut prices.





During the 1980s the cartel began to fall apart as several OPEC countries began to cheat by producing above the agreed-upon limits and moderate nations could not completely halt the chaos. The result was a leaning toward American market forces rather than prices fixed by governments. Algeria, Iran, Libya, Venezuela, and Nigeria all raised their output over OPEC ceilings while cutting separate deals on freight costs and credit terms with consumer nations. Saudi Arabia and the Gulf states threatened to lower their prices to punish the cheaters, and a new intra-OPEC agreement limited production by reducing output and making Saudi Arabia responsible for regulating supply. But more oil was traded on spot markets as oil companies no longer feared price hikes. Prices eventually stabilized, but price wars during the decade prompted by oil gluts kept revenues flat or only slightly on the rise. In mid-decade, Britain, Mexico, and Norway actually lowered prices below the price set by OPEC. This forced OPEC to cut prices to $28 per barrel, and Saudi Arabia reduced its production to one-fourth of normal levels (2.5 million barrels per day) before abandoning its role as the cartel's regulator. By the end of the year, OPEC decided to permit the market to determine the cost of a barrel of oil. Production increased during 1986, but the new price target of $18 was much lower than earlier in the decade. In fact, adjusted for inflation, that price was one-quarter less than the $11.65 that OPEC had imposed in 1973 while production fell by two-thirds of the level of just five years before.[111]

The end of the Iraq-Iran war in 1988 affected oil markets. Both nations sought to produce more oil in order to rebuild their economies, but when OPEC could not agree on a production arrangement, the Saudis glutted the market. Prices fell to $13 a barrel, below the level of 1974 in real terms. OPEC discipline on output and pricing was shattered, and conflict ensued. Iraq exacerbated the dysfunction by seeking high oil prices in order to pay off huge debts incurred during the war. Neighboring Kuwait sought to lower prices as a way to discourage non-OPEC production and deter unfriendly Iraq from retooling its military. Thus, Kuwait refused to prop up prices in 1989 under a new quota arrangement. After OPEC tried to resolve the two nations' differences over production and prices, Saddam Hussein's Iraqi troops invaded Kuwait in August 1990. Both producer and consumer nations rushed to Kuwait's side, because the kingdom accounted for one-fifth of known world oil reserves and occupied a position from which the Iraqi

dictator could also threaten Saudi Arabia and interrupt the flow of OPEC oil. A large coalition of nations issued an embargo against Iraqi oil that halted exports of 4.3 million barrels a day, or 7 percent of the world total. Oil prices spiked upward as a result, but the coalition drew on stockpiles of oil and increases in output from OPEC and other producers to draw down prices from $40 to $33 by the time Kuwait was liberated, by a US-led coalition of military forces in an action mandated by the United Nations, in January 1991.

The war's end exposed OPEC as an unmanageable organization. Despite Saudi influence, OPEC members headed in divergent directions. Besides, the cartel also failed to cooperate with nonmembers such as Mexico and Britain, both of which also went their independent ways when it came to production and setting prices. For the former, the 1994 peso crisis further restricted its ability to make arrangements with OPEC. The Gulf War, therefore, added to the turmoil in the world oil market that benefited the consumer countries in the 1990s.

OPEC hinted at the power of globalization to trump security politics. Cold War dogma had pushed the United States to privilege private enterprise over regulation for security reasons. But Washington had granted the oil multinationals great freedom to run world petroleum markets without fear of antitrust prosecution or congressional intrusion. This system lasted until the producer nations exercised their power, bringing privatization to a screeching halt by the 1970s. By that time it was too late for the United States to reform its pseudomarket policies that elevated the Seven Sisters to oligopolistic status. The North paid the price in punishing oil costs and lost revenues for decades thereafter.[112]

## Third World Dreams

Ominously, the soaring "OPEC tax" burdened non-oil-producing Third World treasuries even more than the advanced nations. The price shock halted development efforts by curbing growth through trade expansion. In short, high prices for energy crippled payments balances, as the value of oil imports overwhelmed export profits. In Latin America, Guatemala and El Salvador experienced trade deficits that rocketed from $12 million in 1972 to $112 and $104 million, respectively, in 1975. The answer for some was to borrow from OPEC nations or the





North and thus enter a cycle of debt. These nations really occupied a "Fourth World" of nations, so hopelessly indebted that they could not climb toward the sorry status of Third World.[113]

For others, desperate times provided an opportunity. Producers of copper, bauxite, iron ore, bananas, and coffee organized against the American liberal trade system by forging cartels in attempts to limit supplies and raise prices during the 1970s. The North was reliant on imports of tin and coffee, and Western Europe and Japan, which lacked resource endowments, needed Third World copper, phosphates, and other goods. Thus, Jamaica succeeded in raising taxes and royalties on bauxite, and Morocco unilaterally hiked prices for phosphates. In the short term, market conditions favored producer cartels, and the structure of some sectors (bananas, bauxite) allowed for taxing multinationals or even nationalizing production. In the long run, however, cartels did not possess commodities with the value and inelastic supply of oil. Buyers of copper could use aluminum instead, and tea might be substituted for coffee. There was no replacement for petroleum. In addition, few producer cartels took a long-term perspective to building monetary reserves, preferring short-term gain. Finally, in the event of a true threat to adequate supplies in the North, advanced nations might act politically or militarily to prevent nationalization.[114]

Some struggling countries, recognizing the iron grip of multinational enterprises on their resources and observing the success of OPEC's nationalization efforts, turned to expropriation as the response to poverty. One example arose from the election of the avowed Marxist Salvador Allende in Chile, whom the Nixon administration feared might provide an entry point for Soviet and Cuban operatives in the Western Hemisphere. Chile suffered from low growth, underdevelopment, and the oligopolistic hold of foreign companies on its economy, particularly its copper mines. Allende set out to correct the disparities, singling out International Telephone and Telegraph (ITT) for nationalization. ITT accounted for $200 million of American investors' total of $964 million of holdings in the country. The United States, fearing the move was a prelude to expropriating the facilities of Kennecott Copper and Anaconda Copper Mining Company, decided to oust him. This successful operation (Allende was killed in September 1973) not only involved illicit CIA activity but used economic measures such as preventing IMF credits to Chile and fomenting strikes to destabilize the

Salvador Allende, president of Chile, September 1973. The socialist leader was overthrown and assassinated in a coup by a military junta. The Americans feared that his nationalization of international copper companies would set off more Third World revolts against the market economy. (© Luis Orlando Lagos Vázquez/The Dmitri Baltermants Collection/Corbis)

socialist government. The Cold War continued to take precedence in these mean economic times; the emerging nations would have to seek other ways to promote their interests.[115]

The United Nations called the 1960s the Decade of Development, but the next ten years were a decade of despair and debt. The situation prompted a campaign for a "North–South dialogue" to redress world economic relationships. New on this score was the tying of oil prices to development programs; what was not original was the persistent demand for special consideration for the South within the American free-enterprise system. After the UNCTAD revolt in the mid-1960s, the Group of 77 developing nations demanded a reordering of global wealth. The oil crisis highlighted the ongoing trend of impoverishment within a capitalist order that promised but did not always deliver robust growth and modernization, and elevated anticommunism over attacking international





poverty. Protests percolated into a strategy of seeking change through the Declaration for the Establishment of a New International Economic Order (NIEO), a set of proposals announced by the Group of 77 in May 1974. The effort became another forum of opportunity to redress the inequities of the open-door trade and financial system. The South called for unilateral sacrifices by the North. Under the NIEO these included the old demands for one-sided commitments to provide aid and technology transfers with no strings attached and to grant generalized tariff preferences with no insistence on reciprocity from the developing world. The G-77 insisted on regulation and control of multinational corporations operating in their nations and on the freedom to expropriate or nationalize foreign holdings. Producer cartels were suggested, and to ensure their success the NIEO wanted the North to pledge not to interfere with them. In sum, the measures not only spoke to restitution for past ills but took a more confrontational stance to address the new realities caused by high oil prices and the inspiration of OPEC. The NIEO directly challenged the power of the United States, Western Europe, and Japan.[116]

Although the UN General Assembly approved the Declaration, the effort faced major obstacles. First, emerging countries shared a vision but not common strategies to achieve global economic reform. This weakness had long undermined concerted efforts to change the system. Newly industrializing countries, such as Brazil, Chile, and Mexico in Latin America and the four "Asian Tigers" of Taiwan, South Korea, Hong Kong, and Singapore, had different outlooks, needs, and objectives than the poorest nations. All but Hong Kong had adopted import substitution policies after World War II in order to develop manufacturing bases, but by the 1970s they sought more open export and capital markets and not more regulated trade, finance, aid, and investment projects. The Tigers wished to jettison the import substitution plans, which led to discrimination against their export drives. Furthermore, little unity with OPEC states existed; the world was divided by oil haves and have-nots. Third World nations not in the industrialization stage found themselves isolated in the wilderness of a punishing world economy. Added to the differential impact of the recession and energy (and food) crises as well as their different trajectories in the global economy were traditional political and economic rivalries that simply rendered consensus on the Declaration next to impossible.

Just as critical to the NIEO's prospects was the response of the North to this strategy of confrontation. Countries in America's circle of capitalist friends willingly engaged in a dialogue regarding the transformation of the international economy, particularly after recognizing that the first oil shock had ushered in a new era of relations in trade and monetary affairs. The North realized that inflated prices of grain, metals, fertilizers, cotton, wool, and rubber had increased the price of food for such desperately poor nations as Bangladesh, Vietnam, and many African countries. Initially resistant to an IMF plan to provide loans on easier terms to the less-developed countries because they might encourage producer cartels to opt out of the multilateral trade system, Washington reluctantly allowed the Fund to act like a bank under a special petroleum scheme by borrowing from surplus nations and lending to debtors. By August 1974, nine oil-rich states lent $3.6 billion to establish IMF special drawing rights. Eventually forty-four nations (most of them Third World but including Greece and Italy, both hard hit by the oil crisis) borrowed under this 1974 facility, which required an annual 7.7 percent interest rate. The next year, central banks in Europe and oil-producing countries donated funds again to Italy, Britain, Finland, Greece, New Zealand, Spain, and a handful of developing nations. The Americans remained tepid supporters, preferring aid (which diminished over the decade) to this multilateral lending effort. The United States balked at the restructuring of the world financial regime by the G-77 members.

Twenty-seven nations—nineteen emerging and eight from the North, including the United States—attended the Paris Conference on International Economic Cooperation in 1975 to discuss the NIEO. Angered by America's request for a confrontational oil consumer bloc rather than cooperation with the Middle East, France banked on the Conference for alternatives to US rule over the global economy. Washington hoped to sever the tightening bond between OPEC and developing nations, limit producer cartels, and keep industrialized economic allies in line with market policies. Secretary of State Henry Kissinger held the conference in contempt, but he felt compelled to attend a follow-up session in Nairobi in 1976 to head off a mutiny against American interests. To this end he suggested the establishment of a multilateral lending agency under the jurisdiction of the World Bank to direct private capital into mineral resource sectors. OPEC also initiated its own funding programs, including the Arab Fund for





Economic and Social Development, the Islamic Development Fund, the African Development Bank, and another that set a target pool of $5 billion run by OPEC ministers.[117] Yet global recession persisted, requiring ever higher infusions of capital from these lending institutions (which provided more loans by the second oil shock in 1979). And developing nations could not overcome US-led opposition to many key elements of the Declaration. When the Soviet Union did not step into the breach, due to its own economic problems, and countries within the Southern coalition split, the NIEO was clearly in trouble.

The conference did not even issue a communiqué. There was agreement to establish a common fund to stabilize commodity prices and reach a higher target of aid, and a pledge to provide $1 billion to the emerging nations. UNCTAD created the common fund in 1980, but not enough countries ratified it into existence. The aid target of 0.7 percent of each advanced nation's gross national product was never attained, and the $1 billion promise was window dressing because that amount had already been committed. The quest for the NIEO waned by the late 1970s, replaced by efforts at self-help, privatized lending, and market prescriptions—in other words, American multilateral and free-enterprise programs.

Still, many of the NIEO's aims materialized both institutionally and in economic terms. The European Community (renamed from the EEC in 1967) signed the Lomé Convention with forty-six associated African, Caribbean, and Pacific states in 1975. Because the Western Europeans were more reliant on trade than the United States was, they acknowledged the need to prevent supply interruptions in the hard times of the 1970s. Thus, the EC pledged to increase aid, committing billions of dollars through the European Development Fund over the lifetime of the Convention. The Lomé Convention was renewed three times, until replaced by the Cotonou Agreement in 2000. Investment assistance was also forthcoming. In addition, the Lomé Convention provided preferential treatment for these nations' exports to the EC without reciprocity based on a quota applied to competitive goods like beef and sugar. Finally, the Convention created a financial arrangement, STABEX, to stabilize export earnings on twelve commodities particularly subject to price fluctuation on the world market. In typical open-door fashion, the United States protested the Lomé Convention, arguing that the preferential deals discriminated against nonmember goods. In the

mid-1990s the World Trade Organization agreed with the Americans, and the EC and United States negotiated a settlement. Disputes on commodities—most famously on favored Caribbean banana exports to Europe—continued to show that Washington seemed to care more for principles and free markets than for radical programs.[118]

The Americans preferred that the South work through GATT, the traditional liberal-trade forum, for their development needs, although US policies could be hypocritical, owing to the economic downturn in the country's manufacturing sectors. At the Tokyo Round (1975–1979), emerging nations won exemptions from reciprocity and nondiscrimination rules, permanent legal status for the generalized system of preferences, and special treatment for the poorest among them. In return, the South would gradually lose its preferences as development took off, after which GATT obligations would be in force. The American campaign against preferences continued into the Uruguay Round (1986–1994), at which forty-six developing countries participated, more than ever at GATT forums. Of special significance for Washington were the Asian Tigers, whose export-led growth policies made them effective competitors.

These Asian nations highlighted a new approach to the global economy: a pragmatic engagement that focused on GATT multilateralism and the open door. The Tigers targeted light manufactures as a means of development, but such goods as textiles had influential constituencies in the United States. Advanced nations complained that the Tigers engaged in unfair trade practices such as dumping, export subsidies, and mercantilist import restrictions and that they did not need the coddling of preferences. As the South emerged by the mid-1970s as the most important source of manufactured goods for the North, the protests against cheap-labor Third World exports became louder. The Americans compelled the signing of numerous pernicious voluntary restraint agreements on many products, including textiles, as a protectionist response that defied its open-door principles. By 1978 nearly half of the agreements applied to Third World exports. By the Uruguay Round the EC, Japan, and the United States had increased nontariff barriers on their imports, including 55 percent of iron and steel imports, 80 percent of clothing imports, and more than 25 percent of footwear from abroad. The emerging world thus lobbied for more market access and a rollback of protectionist measures. Indeed, textile quotas were eliminated over the ten years after the Uruguay Round, while the South won a promise of 20 percent cuts in agricultural subsidies by the new millennium under an ambitious proposal offered by the United States and backed by the Cairns Group of fourteen smaller producing countries. The promise was not honored in 2000, and there was also suspicion that its terms were circumscribed by both the EC, which opposed an end to subsidies, and US negotiators, among them representatives from the big agricultural food-processing and distribution companies like Cargill.[119] Thus, real progress for the average developing nation dependent on trade in agricultural goods was hard to come by.





For their part, the Asian Tigers and other developed Third World nations aggravated protectionist sentiment in the North, but they also exposed the hypocrisy of preaching but not living by the open-door doctrine. They gained market access but also resisted pressure to open their financial services markets, ease restrictions on foreign investments, and implement intellectual property rules (both new areas for GATT). They also used the Uruguay Round as a springboard to explore regional groupings that were created in the 1990s. Still, the Uruguay Round barely made it to the finish line. Signed by 125 countries in April 1994, the trade accord involved such contentious disputes over agricultural subsidies and other issues that the new American president, Bill Clinton, focused attention on jump-starting the talks. Barriers to trade in farm goods remained high regardless of the antisubsidy pledge, and this challenge most affected the Third World. Although the GATT director hailed the Uruguay Round as vital to sustainable development, reporters countered that while the United States and Europeans dickered over their slices of the "world-trade pie, developing countries have wondered what's in it for them. Now, for some, the answer is clear: the crumbs."[120]

## Debt and Interdependence

Pragmatic reform arose in part due to an economic nightmare over financing development. Because oil-shocked industrial nations were strapped for cash, emerging countries could not count on flows of publicly financed aids and loans. After the onset of the second oil crisis in 1978 and the advent of the fiscally conservative Reagan administration in the 1980s, the North looked for ways to assist

in development. Multilateral aid projects were one way, though Reagan frowned upon the expense and principle of handing out assistance. The Americans turned instead to an expansion of World Bank and IMF loans and increasingly to private bank credits. The Great Depression had witnessed massive international bank defaults, but by individual creditors. That memory, combined with debt restrictions in Argentina, Brazil, and Peru in the 1960s and general limits on predatory private commercial loan activity by Third World nations, had stymied such credits. In 1965, Mexico altered its laws to allow foreign private loans for public and private borrowers, and other countries followed. A younger generation of American bankers with no recollection of the Great Depression salivated at the prospects of opening new global capital markets. They took hold of private international lending policies. Deregulation of capital markets after the Bretton Woods system ended also gave commercial lenders freedom to compete effectively abroad without the burden of higher interest rates charged by local banks. And because Islam prohibited interest-bearing loans, these bankers commandeered huge deposits of OPEC petrodollars to satisfy the needs of developing nations, who themselves were willing to pay high interest rates to obtain loans. Bankers stepped in to globalize lending at great risk but also at great profit.[121]

The flow of money surged into the developing world as lenders and recipients grew increasingly optimistic about this system of privatized finance. Flush with OPEC cash, banks flooded markets in Latin America, Africa, and Asia. Between 1973 and 1981, annual borrowing by the non-oil-producing importers of the South rose from $6.5 billion to $293 billion. Their exports also shot up, and their gross domestic products were more than twice that of the North. Thus, emerging nations seemed able to service the debts. Roughly two-thirds of US private loans went to Latin America, due to proximity and bankers' familiarity with Latin American elites who had been educated in the United States. Literacy and life expectancy in the region went up. Multinational lending agencies and OPEC helped out the poorest of the poor. American and European financial institutions feasted at the till of the private lending market. They charged Third World borrowers a "risk premium" of a higher interest rate to safeguard their loans, and soon smaller banks jumped into the market to reap the abnormal profits of their larger counterparts. New debts piled on top of old debts month after month, as borrowers prepaid their existing loans so they could obtain more favorable terms on new ones. Seeking repayment, private bankers were compelled to make more loans so their clients could pay off old debts in an escalating cycle of mutual dependence built on paper. By 1982, external Third World debt reached 264 percent above its 1975 level. As long as interest rates remained low relative to inflation, borrowers could service these debts and the house of cards would stand.





Then the second oil shock and rising interest rates blew through the deck, prompting a massive Third World debt crisis. At each dollar hike in oil prices, the non-petroleum-producing nations had to come up with almost $2 billion per year in funds for their budgets. Private capital provided nearly half of the credits. The situation locked international bankers into riskier but enticing loans. As service costs rose to an average of 21 percent for all Third World nations (and to nearly 39 percent for the worst off) by 1979, lenders became more cautious and turned to short-term credits at interest rates that floated ever higher as inflation soared in the United States and Western Europe. Borrowers needed the money, oftentimes for consumption and not for investment and productive capital. In the case of Mexico, the country built steel mills, oil installations, and electrical power plants controlled by inefficient state agencies and corrupt companies. In other instances, aggressive bankers pushed loans on naive clients. As a result, Mexico's bill to foreign banks tripled between 1978 and 1982, while Argentina's and Chile's indebtedness rose 500 percent. Brazil salivated at financing huge public projects after a period of economic reform had led to vigorous growth. The country welcomed foreign credit with open arms, and loans flowed from Citibank, Bank of America, Morgan Guaranty, and Manufacturers Hanover, among others, in a process reliant on OPEC reserve surpluses.[122]

This regime could not last. Higher interest rates prompted capital flight from Latin America and elsewhere. Behind debt servicing, capital exports amounted to the second largest use of foreign exchange of these nations. Over a third of the $252 billion rise in the debt of Argentina, Brazil, Chile, Mexico, and Venezuela ended up in foreign bank accounts; Latin America held the largest and most rapidly rising portion of debt of all developing nations. In 1981, Latin America as a whole borrowed $34.6 billion but paid interest of $28.2 billion, giving it a net benefit of just $6.4 billion. The region as a whole sent abroad a net transfer of $106.7 billion between 1982 and 1985, more than it had received in the previous

nine years combined. Chile suffered worst of all as its per capita gross national product decreased by one-fifth while unemployment shot up by nearly a third and the entire private sector nearly disappeared into bankruptcy. So ferocious was the downturn that some Third World banks borrowed money from foreigners and then reloaned it abroad to make a profit. That practice soon ended, however. After its defeat in the Falkland Islands by Britain in May 1982, Argentina defaulted on its $37 billion debt. In its fourth year of stagnation when the crisis hit, Venezuela sunk deeper in misery. Dependent on foreign finance, Brazil's economic fortunes so completely reversed that opposition parties joined with industrialists to oust the military from power and bring in a civilian government in 1985. After word in August that some American lenders were bankrupt, the Mexican government stunningly announced that it could no longer service its debts. Oil prices began to fall, which undermined the oil-rich Mexican economy. The US government rushed in with aid and credits to this important neighbor, and private bankers issued a moratorium on loan repayment from Mexico. The debt crisis was in full swing; a chain reaction of defaults swept over nearly the entire region.[123]

In the ensuing years, nations condemned higher interest rates while the Americans came up with the Baker Plan of 1985, named after the Treasury secretary, which provided an infusion of US government loans to debtors, curbed capital flight, and urged austerity measures to limit spending on consumption. Over the rest of the decade private banks wrote off their losses—Citicorp lost $1 billion in 1987—as they generally disengaged from the international lending market. Absorbing the losses lowered the outstanding loans of America's nine largest banks in the region from 177 percent of capital in 1982 to 84 percent, but the Baker Plan merely bought time. In 1989 the new Treasury secretary, James Brady, took measures to end the debt crisis altogether by calling for banks to reduce and reschedule debts on a voluntary basis in negotiation with each country. Private bankers restructured Mexico's debt of $69 billion by swapping old loans for new "Brady" bonds at reduced interest rates. The IMF, World Bank, Mexican government, and Japan guaranteed interest payments for eighteen months. This was the first instance of international debt forgiveness by commercial bankers. In 1994, after Brazil became the last major debtor nation to sign an agreement with 750 creditor banks, the crisis ended.[124]





International lending agency oversight replaced the private banking network of loans, but the IMF and World Bank became the instruments to encourage market doctrine. With support from the United States, Japan, and Western Europe, they set lending terms according to free-enterprise, conservative macroeconomic policies as the Cold War gave way to the era of globalization.[125] Under Structural Adjustment Programs, these institutions insisted upon domestic deregulation, privatization of state properties, austerity measures at home, trade liberalization, and more open investment climates. Debtor nations returned at least temporarily to a period of modest growth as private investments soared and privatization made millionaires (and even billionaires) out of local entrepreneurs. Yet the poorest nations remained mired in stagnation created by debt-servicing obligations, unequal terms of trade, and lack of control over markets.[126]

## African Doldrums

Africa was a textbook example of this sad and alarming situation, particularly the region south of the Sahara, which was the most destitute area of the world. Despite the end of colonialism, much of Africa teetered on the brink of complete financial collapse from the 1980s onward. Many experts believed that the plagues of economic, political, and social turmoil removed the continent from the dynamism of world markets and the benefits of globalization. The causes were both internal corruption and inefficiency and the externally driven effects of unfavorable terms of trade, unequal exchange relationships, and Structural Adjustment Programs. Africa became a poster child of the worst conditions existing in the global economy.

Compared to the economies of other areas of the world, the African continent's economies were largely dysfunctional. To be sure, Nigeria, Angola, the Congo Republic, Gabon, and Cameroon enjoyed windfall profits from the oil crises. South Africa had exceptionally robust growth after World War II, due to its mineral resources, skilled management over the industrialization process, a sophisticated system of import substitution, and a favored position within the American Cold War orbit, which provided the country with capital. By the difficult economic times of the early 1970s, however, import substitution had run its course

and South Africa's switch to an export-oriented strategy was ill-timed. In the 1980s the racist apartheid system instigated an outflow of capital as overseas investors either worried about violence or divested their holdings under pressure from civil rights constituencies at home. Wracked by the oil crises, inflation, plunging investment, and the end of cheap black labor once apartheid disappeared by the end of the decade, South Africa became a chapter in the story of general African economic decline in postwar history.[127]

The other forty-two nations of sub-Saharan Africa fared even worse. In 1995 the per capita gross national product of that vast region was fifty times smaller than the economies of the West. Whereas Americans registered average incomes of $26,980 per head, a citizen from a median African nation such as Mauritania earned just $460, and the poorest, such as Mozambique, suffered with just $80 per capita. Demographic trends exacerbated the economic problems; population bursts coupled with a high infant mortality rate, starvation, and disease hindered the development of a stable working class. By the mid-1990s, with illiteracy at over 40 percent, an educated workforce also was hard to find.[128]

The reasons behind such a depressing record are many, but Africa was a prime example of the unequal exchange system suffered by the South. Dominated by a monoculture of coffee, Rwanda depended on the vagaries of world market prices and could not generate any additional income should the crop fail, overseas demand slacken, or global prices weaken. Fourteen countries were in the same boat; Burundi and Uganda produced only coffee, while Zambia relied on copper and Somalia on livestock. Others produced only two, three, or four commodities. Some nations were luckier, for they possessed oil or possessed valued minerals such as uranium (Niger), bauxite (Guinea and Ghana), or diamonds (Sierra Leone), but even they were subject to periodic downturns that prompted political instability and interrupted development. Only eleven nations—South Africa, Tunisia, Lesotho, Zimbabwe, and Tanzania among them—enjoyed more diverse export economies, but they were often at the bottom of the global pecking order.

As a result, Africa remained dependent on the North in a neocolonial relationship that depressed prices because buyers essentially set prices in a closed system. For example, the French Sucden corporation purchased the entire cocoa harvest from the Côte d'Ivoire in 1988 at a bargain price because there were no





other buyers. This pattern repeated throughout the continent resulted in a drop in African exports by 20 percent between 1980 and 1995. Compounding these difficulties were classic terms of trade disadvantages in which Africans not only sold abroad their cheap commodities at basement prices but had to import much higher-priced manufactured goods. Because foreign investors hesitated to sink capital into development projects, the unequal terms of trade meant that only 15 percent of the value of manufactures made with African raw materials returned to the continent—the North kept the rest. GATT trade negotiations did not seem to help; after the Uruguay Round in 1994, "like sheep being led to the slaughter," African delegates "went along and rubber-stamped the deal," even though they knew the continent "had nothing to gain from it."[129] The American market system trapped the continent and even put their survival at stake.

Despite trying to finance development through numerous measures, including foreign loans, by the 1990s Africa drowned in debt. The sub-Saharan region owed a whopping 90 percent of its GNP to international bankers. Prices for a variety of crops dropped; in 1981 cocoa exports were worth just a quarter of their 1973 value. For the dozens of countries without petroleum, the costs of energy added to the bad terms of trade and thereby sunk them further into debt. By 1994, fuel-importing Zambia owed $5.2 billion in debt, or 161 percent of its gross domestic product. As in Latin America, banks kept reissuing credits in the hope that Zambia could service its debt. The nation could not climb out of the hole. In all, Africa spent 21 percent of its export income in debt servicing each year, and by 1991 sub-Saharan Africa's external debt exceeded its annual GNP, or twice the proportion of any other region in the world. The World Bank and International Monetary Fund stepped in with Structural Adjustment Programs to rescue the continent.[130]

In return for these loans Africans had to liberalize their economies, both by opening them to investors and curbing the presence of the state. The process began with Kenya, Malawi, and Mauritius in the 1980s, and by 1995 all nations—even socialist Zambia and Tanzania—had come to terms. Governmental programs were dismantled, replaced by the market or made more efficient through privatization and reallocation of resources. Urban centers had received the most benefits from the state under inefficient import substitution planning, which compelled farmers to sell their crops below market value in order to maintain

low food prices for bureaucrats, industrial workers, businessmen, and politicians in cities. The IMF now required that farmers receive full prices for their food so that they, not the industrialists, would become the drivers of export growth. Structural Adjustment Programs lifted state restrictions on imports and exports, removed tariffs, and reduced government spending as the market imposed discipline, even though the client-state was a deep-rooted sociopolitical phenomenon that could not be eradicated as easily as in liberal Europe and the United States. Tensions were bound to rise, therefore, between foreign capitalists and ensconced bureaucrats and their bourgeois backers.[131]

The results of liberalization were disappointing, tragic in some cases, and even dangerous. A 1994 World Bank study found that six sub-Saharan nations registered solid improvements and nine experienced modest positive changes but eleven ended up in worse shape. Seventeen countries carried such tremendous burdens of debt that the program was simply irrelevant without massive infusions of outside capital. The emphasis on expanding primary goods for export from rural areas meant a new reliance on world markets, which, under pressures of globalization, responded to higher supply by lowering commodity prices. The plans did not attract more external capital, for transnational corporations shied from these vulnerable economies. Furthermore, urban areas suffered rising unemployment as reforms cut protection for industries and funding for the public sector. As food became more expensive without state subsidies, the World Bank added "poverty alleviation programs" into the structural adjustment regimes in order to stave off starvation. Economic crisis actually spurred democratic change as people overthrew the now-bankrupt client-based system of the state (in Zambia and Malawi) in their demand for help. But it also generated such political strife as strikes, loss of faith in government, new ethnic tensions, rebellion (in Sudan and Liberia), and the collapse of states (Zaire and Somalia).[132]

Two examples of the downside of the World Bank effort showed that the American open-door regime had unintended consequences. In Zambia, 8,500 textile workers lost their jobs and clothing factories operated at no more than 20 percent of their capacity after 1989. The national airlines, bus company, hotel corporation, and other enterprises were eliminated, leading to 25,000 unemployed who joined 60,000 laid off from the public sector. In Ghana, a Structural Adjustment Program raised producer prices for cocoa by 67 percent. Privatization of 195 state-sponsored concerns followed. Many enterprises, such as the Ashanti Gold Fields, were sold to foreign corporations and then refurbished into viable commercial concerns once again. Ghana's economy stabilized by the mid-1980s as export earnings rose, but there was no Rostovian "takeoff" into sustained development. Currency devaluations and increased production worldwide caused cocoa prices to decline, and thus Ghana's debt grew. Industrial workers were laid off, and many could no longer afford higher education or health care, because of new user charges that covered former state subsidies. Rising food prices added to the burden. Calls for change ushered in multiparty elections in 1992, although the incumbent military dictator, Jerry Rawlings, a darling of the neoliberal market reformers, won a majority of the votes. In sum, Africa was not only running in place (in the best scenarios) but remained "uncomfortably close to the economic brink" in many other cases.[133]

Also evident on the continent and elsewhere was an emerging trend of marginalization of large numbers of people, especially along gender lines, due to the impact of economic globalization. In many societies, especially in the emerging world, poverty was borne predominantly by women, because the economic restructuring wrought by the market led to high rates of unemployment—and the first to lose work were those at the bottom of the social scale: women. New technology, flexible and insecure labor markets, and market processes that undercut traditional work patterns increased poverty and placed increasing pressure on gender distinctions. Restructuring under structural adjustment regimes dictated by international banks and institutions, and states unable to serve their people, placed poor women in ever worse economic situations. Their lack of access to education and their illiteracy, combined with a gender bias in development policies and the distribution of work (more than 75 percent of women's work in poor nations was unpaid), subjugated females to declining incomes and a male-dominated system of exploitation. Women took on a greater responsibility for manual labor once globalization's open-door ideology and practices restructured Third World economies away from social services provided by the state and toward subsistence activities bereft of government safety nets. Since 1975 and the first UN Conference on the Decade of Women, activists demanded solutions to better the plight of poor women around the world and empower females in the workplace. But critics of liberal trade noted that ingrained discrimination

against women and traditions of male domination combined with a regime of exploitation to divide the labor market along gender lines. This actually enhanced globalization, and its downsides.

For example, in the world's poorest country—Mozambique—women shouldered the burden of farm labor to provide for their families. In 1994 the country ran a huge debt of $5.4 billion, or nearly five times its gross national product, as it was virtually cut off from the world financial and manufacturing systems. Foreign aid trickled back to donors who were owed this debt, and food aid did not reach the entire population, leading to massive hunger and a food riot in October 1995 in the capital of Maputo that highlighted the magnitude of the problem. Women farmers in Mozambique, who constituted nearly half of the labor force in the country, bore the brunt of this crisis, because they remained in the countryside as heads of household while males had migrated to the cities and abroad looking for work as the processes of globalization ground on. But their access to land and loans was limited by societal traditions and circumstances; women could only occupy land through male relatives, and rising privatization further relegated them to marginal land. Plagued by high food prices, low wages, and declining state support (the removal of subsidies to maintain low food prices and affordable transportation, and privatization of health care, for example), women turned out of desperation to provisioning their families by working on small farms near the capital. Structural Adjustment Programs did not lead to rural recovery (especially after Mozambique's seventeen-year civil war ended) but instead led to limits on government spending for a host of services that consigned women to basic chores such as gathering fuel and water after long and arduous journeys on daily transportation just to get to work. Denied access to resources, women more than men became victims of the market, which privatized land and reduced state programs at the same time that the demands on them for family care (child rearing, education, and elder care) remained. Their own health suffered as a result. Women were marginalized in Mozambique due to labor conditions propagated by globalization and the free-enterprise system urged on the South by the North.[134]





## Pacific Century

If the African nations were losers in the American market system, then most of the East Asian nations—the Four Tigers, Japan, the People's Republic of China—were winners. But gendered poverty also became a norm for millions in this region, too. Like Mozambique, the Philippines, for instance, was also caught in a debt cycle trap, but while a dearth of social spending was partly to blame, so was the creation of export zones. These were a product of incentives given to multinational corporations in the 1970s onward to help the country develop and, in the 1990s, the draw of globalization. Export zones gave foreign firms tax-free total ownership supported by government-backed loans to sidestep trade restrictions abroad; investors from Japan, South Korea, Hong Kong, Taiwan, and elsewhere in Asia who faced export quota limits abroad fabricated electronics, textiles, and other light manufactures in the Philippines and then sent them to the American or European markets through Filipino quotas. These enclaves drove export-oriented growth and a market ethic for the country, and they also propagated female exploitation.

Export zones offered an escape from poverty that was more promise than reality. Work in assembling semiconductors and the like was considered low-skilled, which meant that most employees were women. Upward of 90 percent of the employees in these export zones were women drawn from the surrounding rural areas, thereby escaping traditional social systems and poverty but also encountering the high social and economic costs of Structural Adjustment Programs. Families faced with high unemployment and poverty in the Bataan countryside, for instance, sent their daughters (many of them young—the average age of the workforce was between 17 and 29 years old) to work in the zones, but the wages were lower than in the industrial areas of Manila. In fact, about 40 percent of the women worked under the legal minimum wage (just 17 percent of the men earned such paltry salaries), because females were deemed to endure poverty. Living and work conditions were often appallingly overcrowded, pricey, and dangerous. Women also faced a patriarchal system that gave them no opportunity for redress of these conditions; their every movement, from using the bathroom to traveling to work, was restricted by males. And sexual harassment and stereotyping were rampant. Filipino women in the export zones, therefore,

were marginalized economically and alienated socially, much like others encountering the forces of globalization and American market policies.[135]

Yet the successes in Asia eclipsed these stories, which only lately came to light after digging by anthropologists and social commentators. The story of economic growth and emergence from poverty for many nations (including the Philippines) was stunning and seemed to validate the neoliberal market doctrines of free enterprise and the open door. South Korea, for instance, experienced a remarkable period of growth. One of the world's poorest nations in 1960, with a per capita gross national product ($78) lower than that of its basket-case cousin to the north, South Korea adapted modernization theory from the Americans by veering from Western concepts and grounding takeoff policies in religious and family traditions.[136] The development process hinged on an outward-looking industrialization strategy led by General Park Chung Hee, who overthrew a democratic government in 1961 and turned to *chaebols,* family-owned companies that monopolized production and industries. This plan focused on urban-based, labor-intensive, export-oriented growth through sales of cheap manufactured products like textiles, chemicals, electronics, and machine tools, and eventually automobiles. Foreign investment, mainly from the United States and Japan, as well as international lending agencies and commercial banks, financed the development until the domestic savings rate rose and the home market became substantial enough to support growth. The results of Korea's "catch-up" to the advanced nations were breathtaking. Between 1962 and 1989, the export drive netted 8 percent growth per year through commodity trade that increased sales abroad from $480 million to over $127 billion. Despite the burden of inflation and having the fourth largest debt in the Third World during the 1980s, South Korea ran an international payments surplus by 1986, thanks to skilled government direction and educated management. Per capita income reached $4,380 (a whopping 52-fold rise), and domestic savings increased tenfold. South Korea earned its status as a Tiger, a nation that developed into a trillion-dollar powerhouse in less than a half century.[137]

If Seoul's development was remarkable, Tokyo's climb to the second biggest economy in the world was transformative to the global economy. Provided virtually "free security" by the Americans from the 1950s onward, the Japanese drew on US financing and the boon of Korean War expenditures to modernize and





expand their economy. Reformed *zaibatsu* corporate conglomerates like Mitsui and Mitsubishi emerged as huge trading companies financed by banks and overseen by the government. Believing that Japanese markets were too small to develop, US firms sold their technology to Japanese companies, which modernized the industrial base and adopted a high-tech exporting strategy.[138] American outcries led to voluntary export restraints by Tokyo's ever-sensitive Ministry of International Trade and Industry (MITI), but by the late 1960s Japan was an increasingly burdensome competitor. Still, Japan complained that restrictions on its products gave Asian Tigers such as Hong Kong better opportunities in the United States. As well, Washington only feebly demanded, on Japan's behalf, that Europeans open their markets. Crisis loomed, and perceptions of Japanese free-riding intensified. The undervalued yen boosted exports abroad. As a historian has noted, Tokyo "dined at the world trade buffet but declined to share the bill."[139]

Yet no observer could deny that Japan had taken the teachings of US business management guru W. Edwards Deming to heart (while Americans largely ignored him) and produced goods of superior quality for discriminating foreign consumers. Japan gained from a long-run international marketing strategy that stressed labor-management cooperation and zero-sum neomercantilist policies versus the market philosophy of the United States, which counted on open doors, competition, and unfettered economic growth. Combining competitive firms with government guidance added to a culture of conformism, but it worked wonders in terms of productive efficiency and export potential. The consequences of this export-plus-protectionist approach were apparent. A stable labor pool rewarded by lifetime employment and bonuses, tight control over imports and labor costs, high taxes and state industrial policies that strategically favored new industries, and the state's long-term provisioning of capital for firms and industry, rather than reliance on short-term profits in the stock market, expanded the economy. Japan produced a half million autos in 1960 but made over 3.5 million by the 1970s, even more than West Germany, the world's second biggest manufacturer. Japan's shipbuilding industry was twice the size of its three closest competitors. America and the Europeans began running larger trade deficits with Japan; by the late 1970s Tokyo enjoyed $10 billion annual trade surpluses with the United States. The country obviously made more than transistors,

as Charles de Gaulle had disdainfully quipped in the 1960s. It marketed with a sensitivity to overseas consumer tastes, such as making fuel-efficient cars during the oil crises.[140]

That Japan greatly profited in the global market economy, even though it did not necessarily play by the rules of market capitalism, posed a huge challenge to the United States. Japan beat America at its own game of innovation and market control through vision, trained management and bureaucracies, and strategy. Because Tokyo also exported more capital than it imported as it sought raw materials and minerals abroad, the yen transformed into a powerful currency. Meanwhile, America spent on military commitments—Vietnam, bases in South Korea and Japan, NATO programs in Europe—that drained away money. When Washington insisted that Japan open its trade and capital markets, the Japanese allowed 78 of America's biggest 200 corporations by 1970 but only under bureaucratic control. There would be no free flow of investment into Japan. The country also capitalized on American spending on the Vietnam War to the tune of as much as $4 billion a year by making military goods for US troops. Tokyo might have been shocked by Nixon's announcement in July 1971 that the United States would open diplomatic relations with communist pariah Beijing, but Japan had already become China's top trade partner through special commercial deals and credit arrangements. As well, Japanese investments poured into South Korea, capturing 64 percent of that market and nearly quadrupling America's capital there. The Japanese, in short, were changing the patterns of the global economy. Americans talked of the shifting balance of power away from the Atlantic (and the United States) and toward the Pacific.[141]

Tokyo had become a dynamo in the emerging age of globalization and as much a rival as ally to the United States' rule of the world economy. American businessmen warned President Nixon in 1971 that because Japan bought only raw materials from America but sold to Americans lucrative, high-priced finished goods—and all the while kept its markets closed to US exports—the Japanese treated the United States like an emerging nation. It was time to stop coddling a country a corporate leader compared to "the golfer who is shooting in the 80s with the same 25 handicap he used when he was shooting in the 100s."[142] But American manufacturers also noted the success of Japanese industrialists who pooled their resources under MITI coordination and teamed with government





and labor to overcome inefficiencies and seize markets. This was the case in the semiconductor sector. Over a three-year period in the late 1970s, government tax breaks and subsidies fueled a research association comprising Mitsubishi, NEC, Fujitsu, Toshiba, and others that developed patents to pull the Japanese computer industry even with its American counterparts. To be sure, the government-corporate conglomeration soon belittled as "Japan, Inc." by Americans played unfairly; Tokyo locked out US semiconductor manufacturers from competing in the home market. But the Japanese blamed Americans for not improving their own management and production.[143] It was just this sort of neomercantilist behavior and cold-blooded (market) attitude that had spurred Treasury Secretary John Connally, a Texan, into announcing, "This cowboy knows that you can ride a good horse to death, and the world has been riding the United States, a good horse, to death in the postwar years, and this has got to stop."[144]

Staying in the saddle got harder during the years of oil crises and energy inflation, but Japan adjusted to the new conditions much more effectively than did the Americans. Nixon and his successors complained, cajoled, and even threatened Tokyo for veering from market doctrine, but such an approach blamed the symptoms—unemployment, reduced profits, and bankruptcies—rather than the diseases of American complacency and maladjustment. While Americans looked for scapegoats for ballooning oil prices, MITI bureaucrats vigorously established a national energy policy of conservation by heavy industry, development of nuclear power, bilateral deals with Middle Eastern producers, and increases of imports of refined oil from China. As Japan turned to services and knowledge-based sectors such as electronics, its energy consumption grew by only 7 percent between 1973 and 1986 even though its GDP soared by half.[145] Japan and the United States remained friends despite the trade and monetary frictions, but Japan was branded as an unfair competitor and became the focus of political and popular recrimination.

The venerable US auto industry dished out the criticism. Imports of Toyotas and Hondas sparked protests in the American Midwest. In 1992 an editorial cartoonist depicted a hulking football player wearing a "DETROIT" jersey whining to a US government referee that a trim player celebrating in the end zone with "JAPAN" emblazoned on his shirt was playing unfair. But Japanese carmakers made fuel-efficient and durable autos. Hard-pressed consumers facing

high prices at the pump wanted these imports. As a result, the market doubled Japanese imports between 1975 and 1986, this despite a voluntary export restraint agreement forced on Tokyo in 1981 that raised prices on these cars. Fearful of rising protectionism and a strong yen that would boost export costs, the Japanese built "green-field" assembly plants in Ohio, Tennessee, and Kentucky. These overseas facilities avoided tariffs and won American labor to their side by employing locals. In 1978 Japan made no cars in the United States. Ten years later, green-field "transplants" delivered 695,000 autos. By the 1980s Japanese carmakers owned over a quarter of the US auto market, more than Ford and Chrysler, and were selling well in Europe as well.

That percentage rose to a third by the 1990s as the Japanese juggernaut cleverly retooled to changing global conditions while American carmakers seemed a step behind. To no avail, the Big Three and the government focused on looks and performance and the traditional strategy of buying up components manufacturers at home and investing in smaller Japanese companies (Mazda, Suzuki, Mitsubishi) abroad in order to control production. Chrysler declared bankruptcy in 1979 before receiving a federal bailout loan and returning to profitability three years later. When gas prices fell in the 1980s, Japan turned to the higher end of the market with the Lexus, Infiniti, and Acura models. When supposed free-trader Ronald Reagan imposed the export restraint in 1981, for public relations purposes Honda, Nissan, and Toyota actually continued to adhere to the limits after they lapsed four years later. Regardless, their imports rose to an annual 2.3 million cars, up from 1.85 million. American protectionism failed to hold back Japan's dominance. As Americans thought about short-term profit, Japan followed a long-haul strategy that internationalized the US market.

That strategy finally led the United States to concede a large segment of the field to Japan. Imports into the US market amounted to 43 percent of America's overall trade deficit of $49.4 billion with Japan in 1992. American auto parts manufacturers sought to cut into that deficit by opening the Japanese market to their products. President George H. W. Bush championed their cause on a trip to Japan in 1992 and insisted that US cars gain a greater market share in the country. He returned with little to show for his effort. Even with export prices bolstered by a weak dollar, Big Three sales in Japan did not go beyond the previous year's meager total of thirty thousand cars. US carmakers refused to make





changes that might have stimulated Japanese demand, such as reducing vehicle sizes or switching the steering wheel to the right side. Meanwhile, the transplant strategy led to nearly 2 million Japanese models being made in the United States by 1995, which more than filled the gap when imports dropped off to around 1.3 million a year. General Motors brought out its novel and popular Saturn, but Detroit soon returned to making larger cars and sport utility vehicles. Nearing the end of the first decade of the new millennium, the Big Three's demise grew in proportion to the increasingly iron grip that Japan's three largest automakers had on the US market. By 2009 the American carmakers pleaded for their very survival by asking for government bailout funding.[146]

The second largest economy in the world beat the biggest in auto trade competition, but the US Big Three were not the only ones to feel the winds of change of Japan's open-door policies. The US semiconductor industry also experienced a shock from Japan that was ameliorated only by a government willing to shove aside market dogma. Japanese exports repeatedly cut the legs out of US industry—cars, steel, computers, and televisions. Americans made 82 percent of TVs for the US market in 1969; by 1988 a domestically made television could hardly be found. Imports of color sets and then Japanese wide-screen televisions had essentially erased all US competitors by the year 2000.[147] As the modern era of globalization dawned at the end of the Cold War, Americans foraged for answers to the Japanese commercial challenge to their hegemony.

If Japan issued blows to American dominance in trade, it hammered the US psyche when it came to investments. In 1985 the five leading global economic powers signed the Plaza Agreement, which appreciated other currencies against the dollar, and in particular the yen, which doubled in value. This was one reason the Reagan administration saw fit not to insist on the voluntary auto restraint, for Japanese car exports would rise in cost under the new exchange regime. In Reagan's worldview, the economic freedom of the marketplace was critical to obtaining foreign policy and domestic objectives. Freedom included allowing foreign investment and substantial overseas borrowing, which were rising already due to the attraction of high interest rates, to finance large budget deficits. Just as the OPEC nations had recycled their dollars earned from sales of oil in the West into investments abroad, so did the Japanese use their considerable earnings to buy American assets. With the dollar's fall during the late 1980s,

Japanese holdings of US securities also fell in value, but the yen bought twice as many dollar products as before. Japan turned instead to purchasing property at fire-sale prices.[148]

This shopping spree scooped up some marquee sites and names, although Americans were no strangers to high-profile investment abroad, including in Japan. McDonald's, IBM, Apple Computers, and firms ranging from beverages to electronics and chemicals owned more market shares in Japan, and Disney's theme park in Tokyo Bay captivated hearts and wallets from the time it first opened the doors to Cinderella's Castle in 1983. But Japanese companies invaded the sanctums of American culture and economy. They bought such icons as Universal Studios, CBS Records, MCA Entertainment (including commercial rights to Yosemite National Park), Rockefeller Center (and its Christmas tree), Columbia Pictures, and the trademark for the Indianapolis Motor Speedway in order to build an oval near Tokyo. Snapping up condominiums, houses, ranches, ski areas, racetracks (and racehorses), golf courses, and Hawaiian beachfront properties, real estate purchases by the Japanese between 1985 and 1990 totaled $65 billion. When added to the $170 billion in sales of American securities—about 40 percent of Treasury bonds over the same period—the purchases had a psychic impact. Americans were stunned, depressed, and prone to characterize the Japanese spree in sinister and even sensationally racist terms, even though Britain and Holland still surpassed Japan as the top sources of foreign investment in American real estate.[149]

Yet even the mighty Japanese had to pay the consequences of the market economy. The flow of investment capital helped the United States by floating American pensions and reenergizing localities hard up for cash in a recessionary economy. Investments proved to be jumbo-sized financial follies as Japan's economy tanked in the mid-1990s. A strong yen, slumping exports, and sluggish demand at home, along with an aging population unwilling to spend on consumer goods and crushed under mortgage debts, reversed Japan's fortunes. Workers were laid off, and the country assumed the largest debt in the world. American carmakers even started making better and cheaper automobiles in the 1990s, although Japan retained its hold on the market. The Nikkei stock market plunged by the end of the decade; one indicator of the distress was that Sony's earnings dropped by a third in 1999 despite robust worldwide demand for electronics. The





country incurred losses of roughly $7 trillion in assets. With the Cold War's end, the security alliance that cost the United States dearly no longer was an imperative. Japanese policies of lifetime employment, government guidance, and closed networks of suppliers seemed unsuited for the new era of deregulation and global competition. Japan still ran a trade surplus with the United States and remained the second biggest economy in the world, but the nation looked both foolish and unprepared for new, wide-open-door realities.

Tokyo had launched a trade offensive around the world and changed the power structure of the global economy. But what appeared as a massive challenge to American power ended up as well-orchestrated opportunism. Belatedly, NASDAQ Japan linked to the world's stock markets for the first time in 2000, and Sanwa, Asahi, and Tokai banks merged that year to form the biggest global banking concern ever. Still, Tokyo did not abandon its directed economy and it opposed American and IMF market fundamentalism. Plans were set forth by the government to seize control of high-speed Web service by 2005, although the competition remained fierce from the United States and Europe. Japan's lucrative telecommunications market remained closed to outsiders. Targeted industrial policies were still on the table, but Japan's effective mercantilism of past decades was a memory in the era of global integration.[150]

## China and India

Like America, Japan also faced new competition as the People's Republic of China became a force in the world economy. The establishment of diplomatic relations between Washington and Beijing in 1979 stimulated China's economic ties to the West and the global arena. The country engaged in a combination of import substitution and export-oriented industrial development, seeking to overcome the errors of its self-seclusion during the Cultural Revolution of the previous two decades, which had stagnated growth. Bilateral trade with Japan and the United States rose during the 1970s to approximately $4 billion with each country. Despite Sino-Japanese political tensions, trade between the two nations multiplied fifteenfold into the mid-1990s. Japan bought Chinese oil while it invested in chemical and steel plants. During the 1980s China's trade with communist countries declined to 8 percent of their value in the 1950s, and by the

1990s, when the communist world lost most of its members, the capitalist nations naturally rose in prominence. Japanese officials noted that the future rested with China, a nation predicted to grow into the world's biggest economy as early as 2010. Armed with apologies for its wartime occupation policies, but more importantly with foreign aid tied to purchases in Japan, Tokyo penetrated Chinese markets.

Japan was China's largest trade partner, followed by Hong Kong (due to indirect commerce with the 55 million overseas Chinese living in Taiwan and South Korea) and the European Union. Trade with the United States climbed above that of any single European country; China became the top communist commercial partner with the Americans by 1981. Coca-Cola opened a bottling plant in China that year, but in actuality the trade largely went one way. Although dreams of the China Market had existed since the nineteenth century, trade was asymmetrical as Chinese shoes, apparel, electronics, and consumer goods flooded the US market while China bought fewer technology goods than hoped. Both America and the Europeans ran trade deficits with China (by 2000 the United States bought $84 billion more than it sold), though Japan enjoyed surpluses.

The decentralizing reforms of Deng Xiaoping were the stimulus to this growth. Chinese farmers were given the right to buy and sell land-use rights. This stopped short of private ownership in the world's largest socialist country, yet it led to the expansion and more efficient allocation of resources in agriculture, and eventually in fishing, light industry, and restaurants. By the late 1980s, industrial reforms included a turn to light industry, more focus on customers, and profits made on the open market. Stock markets developed, and the banking system diversified. Deng also decentralized state-owned trading corporations and manufacturing enterprises to the extent that both engineered their own export and import policies and retained export earnings when they exceeded government targets. In the new market regime of augmenting consumption over state-driven production, they also suffered the losses. In any case, the consequences of these changes were staggering. China's gross domestic product surged at an annual rate of 9.5 percent between 1978 and 1999. Per capita income followed this growth, although it was still less than $800 in 1999—China remained an emerging country.

Deng was determined to end China's isolation by opening its doors to trade and investment as well as to earn hard currency by exporting. "One important





reason for China's backwardness after the industrial revolution in Western countries was its closed-door policy," he noted. Embracing the American free-enterprise model, he believed history showed that "if we don't open to the outside, we can't make much headway."[151] While importing heavy capital goods, steel and iron, oil and gas equipment, and grain, China exported textiles, petroleum, toys, and other consumer goods. Deng and his successor, Jiang Zemin, also opened to the world by joining global institutions. In 1980 China joined the IMF and World Bank, becoming a large recipient of aid from both bodies. Through bilateral deals (the biggest with Japan) with developing countries, Beijing incurred a sizable but not excessive $154 billion in debt by 1999. The Chinese also applied for GATT membership in 1986, even though the capitalist world took fifteen years to accept the communist nation.[152]

In its quest to engage the world economy, China also encouraged foreign investment and joint ventures with the capitalist world by creating 124 Special Economic Zones around the country, particularly in coastal cities, through inducements such as tax breaks and guarantees of profit repatriation. Wholly Foreign Owned Enterprises, foreign companies, and contractual ventures invested in market-oriented "micro climates" that induced foreign outlays amounting to $40 billion by 1998, quadruple the sum from just eight years earlier. Although barriers remained, due to the inconvertibility of Chinese currency, bureaucratic restrictions, and worker and management attitudes, direct investment in export-oriented goods poured into the northeast and coastal areas from overseas Chinese and multinational corporations. These arrangements then connected inland China with global markets by a multiprong development effort that focused on traditional trade routes into Southeast and South Asia along the Yangzi River Valley, from the new Pudong District of Shanghai to all directions following the railway through the "continental bridge" from eastern to western China.[153]

The case of Suzhou Industrial Park illustrates the penetration by global capitalism. Founded in 1994 in an agreement between Singapore and China, the Suzhou Industrial Park hosted 103 foreign-invested enterprises capitalized at over $16 billion by 2002. Under the mantra "small government, big community," an efficient service-oriented staff attracted overseas investors by minimizing state interference and pursuing a pro-business agenda. Workers adopted the Singaporan model of a robust but reasonable social security system that provided

employer contributions into personal employee accounts. Community services and public housing abounded. The market determined the workforce, as an administrative committee, not the state, recruited talent. Companies flocked to do business there; Philips Semiconductors chose the Park as its site for a new factory. It was a model of transnational financial strategies and regional business networks—Singapore shipping and engineering behemoth Keppel and United Industrial Suzhou, both controlled by the Salim Group, Indonesia's largest transnational corporation—operated in alliances with state and private capital. A question of its expansion arose after opposition emerged to the large-scale development of arable land in China in the mid-1990s (and globalization itself provoked discontent among Chinese intellectuals, who viewed it as a false identity for China and a tool of Western neo-imperialism). Yet Suzhou Industrial Park became a model of a world-class infrastructure supported by abundant human resources—a "garden-like township" lauded worldwide for the creation of an internationally competitive, high-tech industrial complex.[154]

That both history and foreign policy entered the economic picture was clear throughout this globalization period, as evidenced by the confrontation at Tiananmen Square in June 1989, human rights violations (Tibet), political tensions (with Taiwan, Japan, and so on), and exploitation of workers (especially women, as export-led industrialization became increasingly feminized). Protests against Chinese policies caused American automakers to lose a contract to build plants in China in 1995; a German company free of political dissenters won the day. Still, globalization swept China and the advanced nations along on a rising tide of commerce. In 2000, Chinese leaders announced a proactive policy of "going global" by opening doors to foreigners. The goal was to profit aggressively from the world economy and transform enterprises into transnational corporations.[155] Regardless of politics, China emerged as a gold mine for business expansion in the minds of executives throughout the world—the biggest retailer in the world, Walmart, based much of its manufacturing and assembly base in the country. After the US Congress and President Bill Clinton overcame their reluctance toward the repressive government and decided to grant China permanent most-favored-nation status in 2000, China acceded to the World Trade Organization (GATT's successor) under rules requiring more openness, fewer state restrictions on imports and foreign firms, and Western standards of worker safety and health conditions.[156]





China also engaged in a parallel trend of regional economic integration, joining Japan, Singapore, South Korea, and others in joint banking ventures and in lowering tariffs on Asian goods. By 2006 the "going global" campaign, incorporated into the Communist Party's Five-Year Plan, yielded a huge boom in foreign-financed projects at home. Meanwhile, 3.45 million workers labored overseas and thirty thousand enterprises operated in more than two hundred overseas countries and regions, in sectors ranging from construction to tourism. Parts of some of the largest firms were listed on the Hong Kong and New York stock exchanges, which raised billions of dollars for Chinese parent companies to acquire and merge foreign holdings.[157] At home, the Chinese witnessed over a 954 percent increase in per capita growth in personal income between 1980 and 2008, triple that of the next regional competitor, South Korea.[158]

The global market converted the communist dragon into a key member of the world economic community—an arena that favored China and transnational businesses but not the market advocate, the United States. In 2008, lagging exports to China and booming imports from the Asian giant led to a $266.3 billion deficit, the largest shortfall with a single nation ever recorded by America. Retailer Walmart was responsible for a big proportion of this deficit, but ominously for the United States, both advanced technology sales as well as cheap manufactures accounted for the twenty-year trend of the trade imbalance. By 2009 China had accumulated over $2 trillion dollars in reserves from this lucrative commerce, and it reinvested much of this treasure into US assets to keep interest rates low and maintain American consumer purchasing of its goods.[159] Transnational corporations such as Walmart welcomed the surge, but smaller competitors and US labor did not, and as the latter urged an increase in the value of China's artificially low currency to dampen down the export advantage, others noted that the issue was not about China itself but about the process of globalization that benefited transnational corporations (including many American ones). "Made in China" indicated only that the country was the final assembly point for goods that had wended their way through Japan, the United States, the Asian Tigers, and others in a global supply chain dictated by competitive market forces.[160]

Corporate proliferation in the new India, February 1994. Globalization and market potential arrived in India after the country deregulated its economy. Roadside signs carrying corporate logos indicate some of the more than 160 companies that staked out claims in Bangalore, a dynamic technological hub city. (Time & Life Pictures/Getty Images)

India, too, became an Asian giant during this burst of globalization, although at a slower speed than China. The world's largest democracy had long adhered to a mixed economic model between socialism and capitalism—market mechanisms controlled by state regulations. Unlike China's rather haphazard and dramatic opening to the capitalist world, India leaned toward the market in an orderly fashion. Prime Minister Rajiv Gandhi removed internal industrial controls in the 1980s, but more boldly, Manmohan Singh, the finance minister, followed with changes to exchange rates and taxes in the early 1990s, prompted by rising oil prices and the collapse of its top trade partner, the USSR. Overborrowing from the IMF caused a balance of payments crisis and pushed leaders toward liberalization. The government disposed of the License Raj of import, investment, and industrial licensing, curbed state monopolies, and encouraged foreign direct investment. What had been the most regulated country in the noncommunist world became one of the most "market-friendly, outward-looking" nations, noted the government.[161]





The southern city of Bangalore epitomized the riches of market-oriented development and the effects of globalization. This city of oxen, rickshaws, and avant-garde architecture hosted Electronics City, an industrial park with more than one hundred high-tech firms that served as the epicenter of globalized India linked to the world market. Software designers and engineers—the brightest young minds of the information technology revolution—found homes in Bangalore, which became the birthplace of IT giant Infosys in 1981. This multinational firm helped companies and people around the world program, manage, and integrate their personal computers. Infosys became a software and outsourcing giant with over one hundred thousand employees in nine centers in India and thirty worldwide offices, with revenues topping $4 billion by 2008.[162]

The IT revolution in Bangalore transformed the entire country and branded India as a source of innovation and service. Call centers serviced international clients seeking assistance for phone use, household appliances, and computers, while research and development facilities cropped up in English-speaking college-educated Bangalore rather than China. India had caught the wave of globalization, or at least overseas business had identified India as a prime place to outsource engineering, research, and manufacturing operations to cut costs. Growth skyrocketed in manufacturing, aviation, real estate, and film, among other sectors. Consumer spending rose steeply, and six million luxury buyers bought up pricey goods, including homes and land that placed thirty-seven Indians among the world's richest people. Deutsche Bank, Citigroup, Goldman Sachs, Barclays, and other foreign investment banks paraded into the country. Consumption boomed; in the telecom sector, India added seven million mobile phone subscribers every month in 2006, surpassing even the explosion in China.[163]

While India profited from the fuel of globalization, however, it could not be denied that one-quarter of the planet's poor inhabited the country. Thus, India like other nations experienced a considerable amount of unease over the effect (or ineffectiveness) of the market on poverty in the emerging nations. A battle persisted into the new millennium regarding the costs and benefits of the open-door doctrine, especially as a trend toward unfettered market capitalism took hold in the post–Cold War world economy.

# 4. *The Open Door*

BY 1989 the Soviet empire collapsed, violently in some places and less noisily in others. The USSR itself went out of business in 1991 in some turmoil. Away from the glare of media attention, the post–Cold War age of globalization sprang to life. It was a product of advances in communications and transportation, an environment particularly in the United States of deregulation, the opening of borders and freer movement of people, money, and goods, and a revival of open-door market ideology led by American and European business, political, legal, and academic leaders. The process of globalization promoted convergence, growth, transparency, and democratization of the world economy. The nation-state came second to the transnational corporation; the agent of change was no longer government but firms, producers, bankers, immigrants, travelers—in short, private citizens of the world. The market became the single authority that unified producers and consumers, shaped by nations, international institutions, individuals, firms, and business networks to promote integration and harmonization worldwide. The Trilateral Commission of the 1970s and the World Economic Forum (WEF), meeting in Davos, Switzerland, since 1982 voiced the plan of free-enterprise to replace regulatory capitalism. Monetary management of the economy, tax relief, containment of unions, deregulation, fluctuating exchange rates, and free trade were the policies of the globalizers. More rapid and massive flows of products, money, information, people, and technology were the mechanisms they encouraged. The demise of the Cold War created the political and diplomatic circumstances for economic globalization to assume its paramount status.

Before the superpower standoff ended, the Americans—and notably Ronald Reagan—provided the political impetus to globalization and the spur to worldwide economic integration by a mantra of freedom. While he took aim on the corrupt and destitute Soviet Union through his strident anticommunist rhetoric, a huge military buildup, and intervention in the Middle East and Latin





America, Reagan also pursued an agenda of deregulation and privatization at home, free markets abroad, and business expansion around the globe. He rejected the framework of the subordination of economics to security concerns (although he certainly prosecuted Cold War policies of containment and rollback of communism) and instead embraced free enterprise in the marketplace—itself transformed by technology and the withering away of constraints placed on it by the superpower rivalry. Falling oil prices in the 1980s aided his program of stripping the US economy of regulations; with more money in their pockets due to cheaper oil and lower taxes, and well-made imports arriving from Japan and elsewhere, consumers were inclined toward getting the government out of the market and freeing up the genius of American capitalism.

The revolution began at home. For instance, Reagan hastened the deregulation of the communications system in the United States by breaking up the world's largest corporation, AT&T. The advent of the so-called Baby Bells privatized the telephone system and opened up the country to foreign competitors, who seized the US market (though they did not grant American concerns equal access to their communications systems). In information technology, antitrust action against computer giant IBM led indirectly to the company joining Intel microprocessors and Microsoft's operating software with its own hardware to produce the personal computer. By not relying solely on IBM parts, the company's PC system was not proprietary, and soon spinoffs of components, chips, drives, and the like cropped up around the world, especially in developing Asian nations. The US computer manufacturer gave way to marketing organizations for foreign producers, or "hollow corporations" with no production base but heading networks that drew on cheap labor to produce efficient, cutting-edge technology. From the mid-1980s to 1998, the information technology sector augmented its share of the gross domestic product from 4.9 percent to 8.2 percent as the number of people using computers doubled to half of the workforce. By Reagan's second term, America enjoyed a growing export surplus in services, thanks to its competitive advantage in technology, even as its merchandise trade deficit blossomed under pressure from Japan, China, and others. This growth led efforts by the government to inject US private capital and business into overseas markets and provide rules against piracy and copyright infringement to protect their ideas and services.

Globalization was clearly visible in the world financial system. For starters, services became ubiquitous and grander in scale. The VISA credit card became a global brand with thirty million cards in existence in 1970, expanding to one billion by 2000, when this transnational company controlled 57 percent of world market share of financial services. Accepted in over 130 countries where transactions occurred over an average of just five seconds, VISA generated $2.1 trillion in annual business. Second, the abandonment of fixed exchange rates and deregulation of capital controls by Canada, Germany, the Netherlands, Switzerland, and America during the mid-1970s (followed by Britain and Japan a few years later) aided the globalization process. Also, with the cost of transatlantic phone calls dropping by 90 percent between 1970 and 1990—as well as price declines in computers—stock market traders, investors, and capital managers planned, organized, and executed transactions around the world on a continuous basis. Global financial dealing skyrocketed as cross-border transactions in bonds and equities climbed from 9 percent of the US gross domestic product in 1980 to 164 percent by 1996. Americans held foreign securities totaling $2.38 billion in 2000, up from $89 billion in 1984, while foreign ownership of American equities and debt shot up from $268 billion to a staggering $3.65 billion over the same period. And American private capital increasingly dominated loans and other exchanges to the Third World; by 1994, 78 percent of the investment money came from banks, while 4 percent hailed from international institutions. World finances were increasingly integrated and expanded under the regime of globalization; national banking systems were so intimately tied to each other that policies and events affecting one influenced all.

A demographic and cultural synergy occurred alongside this economic convergence. More people than ever before crossed borders as tourists, migrants, or students. The number of people who flew on international flights from US airports rose 240 percent to 55.5 million during the quarter century ending in 2000. Meanwhile, in 1970–1990 about a half million people per year entered the United States; in 1989 the figure reached a million, and an undetermined but sizable number poured across American borders as undocumented aliens thereafter. Reflecting regional and global migration trends, Latin Americans shifted from immigration to emigration, much of it to the United States. They were one-quarter of California's population in 1991. Asian immigration doubled during the 1980s. Furthermore, the number of foreign students studying in the United States numbered nearly 454,000 in the mid-1990s, about five times the number of Americans enrolled in schools abroad. And all of these globalized travelers and the millions who were "virtual" tourists found themselves linked together and sharing common experiences through the Internet. In 1997 fewer than 40 million people were connected across the planet but just a year later over 100 million communicated on the Internet. The world had entered the Information Age, which drove the globalization process and revolutionized culture, economies, and politics.[164]





## Integration

Curiously, a result of this upsurge in integrated markets and peoples before and after the Cold War was a movement away from the multilateral universalism championed for decades by the United States, and toward regionalism. This was a product of GATT's struggle in the 1980s to maintain trade barrier-reduction negotiations, but it also reflected the success of the world's largest economic bloc, the European Union (EU), renamed from the European Community under the pivotal Maastricht Treaty of 1993. As of 2009, twenty-seven Western, Eastern, and Southern European states composed the EU, with several Balkan nations and Turkey candidates for admission. After the EU agreed to the Single European Act, which focused on forging a single (or common) market in which goods, money, services, and people circulated freely, the Maastricht Treaty enhanced that unity. Although the Americans feared protectionism and discriminatory treatment (inherent in a customs union), the Europeans largely adopted industrial policies that favored their enterprises (such as the subsidized commercial aircraft manufacturer Airbus Industrie) over a fortress Europe mentality.[165]

The Americans need not have worried. Further unification occurred in 1999 with the introduction of a single currency, the euro, in many of the member states, followed by the phasing out of national banknotes three years later in all but Britain and Denmark. The process of adopting the euro was politically difficult, and differences among member states in terms of economic policies remained hurdles to further integration, but there was no doubt that the euro rivaled the dollar as the world's reserve currency. The magnitude of the EU

promised to change global economic patterns, as its 500 million citizens accounted for nearly a third of the entire world's gross domestic product, or nearly $17 trillion by 2007. From the mid-1980s onward, American-style grassroots consumerism swept the region, undermining traditional society along with the socialist mantra of producerism and the bureaucratic state. The EU also ranked as the planet's largest exporter and trade partner with the most dynamic Third World countries, India and China, while it was the second biggest global importer and hosted the headquarters of 170 of the Fortune Global 500's corporations. Despite American economic successes in the 1990s, the Europeans developed their own rival transnational networks in finance capital that linked horizontally with each other across the region through myriad interlocking directorates.[166] That is, market forces were increasingly privileged in Europe.

Under directives worked out in Lisbon in 2000, the EU determined to step up privatization, technological innovation and modernization, and worker productivity in order to strengthen its economic power and rival the United States. Some talked of a new European imperialism as ruthless as the old but aimed this time as much at the Atlantic world as at the Third. The EU defied the American open-door model with its customs union, yet it also resisted the temptation to veer from multilateral trade. The eventual passage of a major internal reform of the EU, embodied in the Treaty of Lisbon, which was finally ratified, after some dissension, by all twenty-seven member states and went into effect on December 1, 2009, showed a new Europe ready for competition. The Treaty of Lisbon, or Reform Treaty, streamlined decision making in the union to promote further interdependence through a more efficient institutional structure, strengthened executive powers without diluting the democratic process, and created a new post, High Representative on Foreign Affairs and Security, to coordinate EU external relations. This latter innovation directly addressed the longtime problem of a lack of cohesion in foreign affairs among the member nations. This lack of cohesiveness had weakened Europe's external influence, because it spoke with several voices, rather than with a unified one, and therefore its impact was marginalized when compared to that of the United States, China, and even emerging powers like Russia, India, and Brazil. The financial crisis that swept the world beginning in the summer of 2008 revealed the opportunity to junk this fractured external policy-making procedure and move toward further integra-





tion, as the Europeans would unify their trade, monetary, investment, and aid programs in international negotiations.[167] Europe, like America, thus encouraged the process of globalization, even in the midst of a severe downturn.

The movement toward regionalism accelerated around the world during the 1990s, especially in the South, which continually searched for development options after its decades-long disappointments with import substitution, trade preference systems, and debt. Latin America and Asia looked to growth in intraregional trade, while the many African nations associated with the EU renegotiated their trade relationship in the late 1990s, leading to the Cotonou Agreement in 2000 that supplanted the Lomé Convention with a more vigorous effort at reducing poverty and increasing aid by improving access into European markets.[168]

In response to the competitive potential of the European Union, Canada, the United States, and Mexico established the North American Free Trade Area (NAFTA) in 1992. This trilateral bloc of neighbors promoted investments, trade liberalization, and multilateral cooperation. It was vigorously opposed by environmentalists, small business, and labor, who feared a gutting of US and Canadian protective laws for endangered species, child and prison workers, and unions, along with predatory actions by big corporations. The Canadians accepted freer trade as a permanent condition of the budding era of globalization and approved the pact.[169] Mexico, as the weakest economic link, saw much to gain by NAFTA's supposed spur to development and access into rich nations. The Clinton administration fought tooth and nail to get its approval, however. Opponents used the NAFTA accord as a springboard to protest trade negotiations and globalization in the 1990s. The accord, which included side agreements on the environment and labor practices to appease foes, called for gradual elimination of barriers on sensitive goods like textiles, autos, and car parts as well as access to closed Mexican financial services and land transportation. Supporters and critics contended with each other over the impact. Some claimed that NAFTA was a foreign policy success as well as a boost to trilateral investment and trade, well above that recorded by the three nations with the rest of the world. Others countered that NAFTA sent US manufacturing jobs south. Opponents also focused on Mexico. Small farmers were chased off the land and emigrated illegally to the United States, because heavily subsidized American agribusiness depressed

Signing the NAFTA treaty, San Antonio, Texas, December 17, 1992. The leaders of Mexico (Carlos Salinas de Gortari), the United States (George H. W. Bush), and Canada (Brian Mulroney) stand as the North American Free Trade Agreement is signed. NAFTA prompted liberalization of trade and investment to spur development, profits, and globalization on the continent. It became a target for protest by protectionists, environmentalists, labor, and other groups, some of whom were opposed to market globalization. (Time & Life Pictures/Getty Images)

corn prices (though the cost to locals of processed corn tortillas rose, further impoverishing them). Business elites in all three countries profited, as megafirms like low-price Walmart (drawing on cheap Chinese labor) entered Mexico and bankrupted thousands of small manufacturers of toys, candy, and shoes. Suffice it to say that NAFTA exhibited the benefits and perils of American-style free-enterprise capitalism.[170]

A notable effort at regionalism arose when Argentina, Brazil, Paraguay, and Uruguay formed Mercosur in 1991 to promote freer trade among themselves as well as with six associated South American nations. Wielding a gross domestic product of $1.2 trillion by 1999, the customs union also aimed for cooperative free trade agreements with outsiders. Mercosur signed a free trade agreement with the five countries of the Andean Community in 2004 and with Israel three





years later. The combination of the Andean members Ecuador, Peru, Bolivia, Venezuela, and Colombia with Mercosur created a potential trade bloc of 341 million people with the fifth largest economy in the world. Intraregional trade within Mercosur and the Andean Community, which climbed to around $2.3 billion in 1991, shot up above $35 billion ten years later. Latin Americans as a whole experienced a rise in commerce among themselves to 19 percent of their total trade by 2005.[171]

However, they could not ignore the fact that nearly half of their total trade focused on the United States. For some the ultimate goal was to balance the power of NAFTA and the EU by blocking the US-inspired creation of a Free Trade Area of the Americas. This arrangement planned to extend NAFTA to thirty-four countries to form a super-regional area of trade and investment and promote free trade and investments in lieu of the world trade negotiation forum. Many South and Central American countries balked at the idea, fearing it as an agent of US imperialism in the hemisphere, while the leaders of powerful Brazil and Mexico thought it a useless organization without an American commitment to lower its trade barriers to exports from the region. On the contrary, Washington looked to the Free Trade Area as a means of maintaining the openness of Mercosur and the Andean common market and thus placed less emphasis on reducing US tariffs. With the United States not forthcoming, the Free Trade Area remained on the drawing board as talks on integration, bending the American colossus to the needs of emerging nations, and development continued in the first decade of the new millennium among Latin and North Americans. Still, the "Washington consensus" of market-friendly internal reforms and open doors to the world remained strong. Consequences both favorable (inflation declined, debts repaid, fiscal imbalances righted) and unfavorable (poverty, underperforming commodity markets, financial turbulence at home, lagging terms of trade) for the region were the result.[172]

The wave of integration also swept Asia and the Pacific region. In 1992 the quarter-century-old Association of Southeast Asian Nations (ASEAN) created a Free Trade Area whose six members (projected to ten by 2012, along with several observer countries) originally sought to cut all internal tariffs to between 0 and 5 percent on certain products and eliminate nontariff barriers on these items by 2008. They moved up the deadline to impose this common preferential tariff

in 2003, and average tariffs fell to 3.87 percent as intraregional trade more than doubled to $95 billion by the year 2000. By 2006, tariffs stood at 1.74 percent. Meanwhile, each nation retained its national duty schedules that applied to outsiders.[173] In 2001, ASEAN and China began talks on a free trade area that also drew the interest of Japan, and trade surged to $200 billion by 2008. In 1994 an even larger grouping of twenty-one developed and developing nations of the Asia-Pacific Economic Cooperation (APEC) organization set out to achieve free trade, investment, and cooperative ventures in industrial, resource, and banking management by 2010 for the advanced countries (including Canada, the United States, and Japan) and ten years later for the emerging countries in the group.[174]

Regionalism thus engineered a takeoff period in trade, but there was concern that the multilateral system developed under GATT would splinter into preferential blocs. This might undermine the American open-door system through exclusive arrangements that distorted trade. A world umpire to guide all of the regional groupings along the road of multilateral trade liberalization was needed. This idea had first been broached way back in 1948 with the aborted International Trade Organization and then tried and rejected again in scaled-back form with an Organization for Trade Cooperation in the mid-1950s. In order to institutionalize a comprehensive set of trade rules and update the international commercial regime so it addressed the full range of trade and trade-related issues, the EU and 75 members of GATT incorporated the negotiating forum into the World Trade Organization (WTO) in 1995 after the conclusion of the last GATT Round in Uruguay. The remaining 52 GATT members joined within two years. By 2007, the WTO had 151 members on its rolls. It monitored and enforced the principles of liberal trade, served as the barrier negotiation forum, and oversaw the implementation of all agreements.[175]

Essentially policing national trade policies to ensure their compatibility with liberal trade rules and to maintain open doors in the world economy, the powerful bureaucracy of the WTO had a myriad of functions that quickly drew attention from critics and supporters. The organization served as a research and analysis center, as a training forum for the developing world's leaders to engage in effective trade relations, and as the global commercial regime's link to the IMF





and the Bretton Woods system. Because of its high profile and sweeping responsibilities, the WTO became a lightning rod for grievances against the inequities in the trade regime, the power of corporations, globalization, and the hegemony of the North. Such nongovernmental organizations as the Sierra Club and the World Wildlife Federation demanded a seat at the WTO table to shape global economic policies that would protect the environment. On the other side, however, were nations arrayed against US regulatory policies that were dominated by interest groups; in a reversal of roles, several Asian nations won their appeal in the WTO in 1998 against a US ban on imported shrimp from nations that did not protect sea turtles from dying in fishing nets. In this case, the market advocate turned state regulator, but it was compelled to change its laws to accommodate business forces. Conservative (and some liberal) groups, meanwhile, found the institution undemocratic because unelected bureaucrats dictated rules to which national governments had to adhere. This intergovernmental agency emerged at odds with many interest groups, as well as the Third World, which sought to wrest the WTO from the North's control. Yet undeniably this global economic umbrella organization pushed nations toward embracing the ideal of "one world" in which goods, money, and services were exchanged across borders regardless of national origins, and with consequences both good and bad for the integrative process.[176]

One upshot of the new regionalism and the advent of the WTO was an increase in international exchanges and thus the integration of the world's biggest economies. Because of growth by 17 percent in merchandise exports from 1950 to 1999, the seven major industrial economies (the United States, Canada, Japan, West Germany, France, Britain, and Italy) became more integrated in world markets. Even the United States, historically a self-sufficient economy, saw its imports and exports grow to equal nearly a quarter of its gross national product. Economic linkages became more pronounced in the 1990s and beyond, as China became a major investor abroad as well as exporter. Japan committed to trade expansion and also to direct investment abroad (building Toyota and Honda assembly plants in the United States, for instance), and Americans worked abroad for global companies that sold goods around the world (General Motors made cars in Germany to export to Japan; Compaq purchased hard drives from Taiwan; IBM produced goods in South Korea and the Philippines; and seventeen

nations supplied Boeing with aircraft parts). The resurgence of trade after 1950 led to higher levels of integration among advanced nations and between them and the Third World and greater growth than during the so-called Golden Era of European-led capitalist fusion from 1870 to 1913. Such open doors and market-driven cohesion led analysts to applaud the salutary effects of globalization on world politics; economic interdependence, opined some, prevented war, because nations would not doom their lucrative trade and financial relations through conflict with a close commercial partner. Of course, others believed that integration heightened chances for disagreements or merely focused democracies too much on economics and not enough on their security, thus making them susceptible to pressures from authoritarian regimes. Whatever the theory, globalization had undoubtedly been spurred by the enhanced economic contacts in the era of integration.[177]

## Trade Battles

Due to its growing dependence on world markets, the United States (as well as the New Labor government of Prime Minister Tony Blair, which broke with British socialism upon his election in 1997, in a trend that continued the free-enterprise policies of Conservative Margaret Thatcher in the 1980s) also endorsed a policy of liberal trade that abetted the market revolution. Both America and Britain pushed the process of globalization, which itself fueled more commerce, just as they had overseen the reconstruction of the post–World War II global economy through a mix of market and statist approaches. Entry into overseas markets would sustain and expand growth. The United States and Britain embraced the open-door doctrine as both an opportunity and a necessity, particularly as the oil, debt, and Japan shocks reverberated in the global economy. Historically the United States had not relied on exports and imports for its income; foreign trade in goods and services never reached higher than 10.8 percent of the gross domestic product from 1945 to 1970, and averaged 8 percent annually. During the 1970s the ratio doubled to 20.5 percent, and by the turn of the century imports and exports amounted to 26 percent of gross domestic product. With improvements in transportation and communications, a strong dollar, and rising overseas investment (which doubled during the 1980s and tripled





from 1990 to 2000 to $2.2 trillion), the advanced nations led by the Americans turned to negotiating down trade barriers in GATT and the WTO.[178]

This meant that established labor-intensive industries fell by the wayside, replaced by the globalization of production in which cheap-labor emerging nations manufactured the goods the Americans, Europeans, and Japanese once made. The transformation wrought by the world market revolution not only meant more competition from abroad for the advanced nations but structural changes that did not necessarily privilege the powerful countries. That is, although most of the biggest transnational businesses were headquartered in the United States, they advocated vigorously for a free trade regime. Free trade would encourage imports on behalf of consumers, job growth in the service sector, and US manufacturers who obtain cheap components that lower costs for domestic production, enabling them to compete better globally. Market liberalism also favored fewer internal regulations on investments and more regulations to protect property, product standards, and the like to boost capital flows around the world and, with them, exports. Thus, cheap imports flooded into US markets, raising howls of protest in Congress and among an emerging coalition of small and medium-size businesses, organized labor, consumers, small farmers, and others as the industrial and work landscape transformed. Outmoded industries went bankrupt and injected efficiencies in the market. Automakers met the competition by modernizing and becoming leaner. Untrained or uneducated workers, and older workers who lived in the beleaguered manufacturing areas of the country, were unable to participate in the booming high-tech service sector and other romping grounds of the transnational businesses. Steel, textile, auto, and electrical unions, among others, lost hundreds of thousands of jobs, and wages plummeted for the jobs that remained. The dislocations caused by freer trade were painful for former union members, who had to take jobs in the low-end service sectors—security guards, fast food, janitors. Such conditions provided grist for the anti-globalization protests beginning in the late 1990s by organized labor forces. In fact, although the United States created 44 million net jobs between 1972 and 1992, none arose from internationally traded industries. Those went to Japan and industrializing countries like Taiwan, Brazil, and South Korea, which were not so much free traders as single-minded export boosters who had access to the open American market.[179]

The flipside of the statistics was that international trade had become more lucrative and expansive than ever before in the postwar world economy, due to negotiations and integration. The history of globalized trade reveals a complicated process of winners, losers, and power. For instance, a study of the "travels" of a T-shirt from its origins in the cotton fields on a Texas farm to its fabrication by mobile sweatshop labor in Shanghai's Number 36 Cotton Yarn Factory and Brightness Number 3 Garment Factory to its selling point in a drugstore in south Florida and its final destination as used clothing worn by poor Africans revealed both exploitation and opportunity. The $1.42 T-shirt (which included 24 cents in tariffs) fought off obstacles such as US trade barriers, Chinese bureaucrats who regulated Shanghai's apparel manufacturing, and American politicians who granted subsidies to farmers and protectionism to the textile industry. By the time a consumer put it on, the shirt had benefited foreign firms, by assuring them of a set amount of business under quotas, as well as workers abroad who preferred underpaid, sometimes dangerous, and tiresome factory work to the grueling drudgery and cultural backwardness of life on a farm. This system lasted until the structure of apparel protectionism under the oft-renewed 1974 fiber international trade system of quotas on less-developed nations ended thirty years later. Up to that point, a perverse consequence of protectionism emerged as actual aid to industrial development in many small countries. After the demise of the quota regime, however, the monolith China took over the manufacturing process, and its apparel exports surged after it reached deals with Walmart, the world's biggest retailer, which rewarded US consumers with the lowest prices. American retailers pressured Congress to lower trade barriers, and while other Third World countries lost jobs, former textile workers in the United States found new jobs at Walmart, Target, J. C. Penney, and other stores. Such employment paid less, with far fewer insurance benefits, than their textile jobs. These were the hard realities of the global trade network, whose diverse participants registered gains and losses depending on luck, perseverance, and entrepreneurial skills. The history of a T-shirt rendered debates between friends and foes of globalization both complicated and, as the system of manufacturing and distribution wound its way through the world, increasingly irrelevant.[180]

The compromises between freer trade and protectionism inherent in the GATT regime, which both encouraged and limited open-door access to na-





tional markets, were partly responsible for these conditions. At the end of the Tokyo Round in 1979, the advanced nations moved beyond tariffs to address ways to enhance market access, protect intellectual property rights, and settle disputes that marked the modern trade era. Duties on manufactured goods continued their fall from the Kennedy Round of the 1960s, but most important, codes on such nontariff barriers as subsidies, countervailing duties, dumping, and government procurement were drawn up for the first time. Such protectionist obstacles had proliferated as tariffs fell in significance. In sum, these codes allowed nations to impose countervailing tariffs or seek fair treatment if hurt by domestic "safeguard" measures. A system of surveillance, consultation, and dispute settlement was established in the nontariff barrier negotiating process, but only for signatories to the agreement. Thus, the many developing nations that did not sign the codes remained exposed to discrimination. The Tokyo Round also failed to address voluntary export restraints, targeted and discriminatory safeguard measures by the European Community, and agricultural protectionism—the latter the bane of the previous GATT negotiations. Neither the Europeans nor the Japanese would end their protectionism in agriculture.[181]

In the interim between the Tokyo Round and the new set of talks in Uruguay that began in 1986, the forces of globalization had added to the list of potential obstacles to the liberal trade order. These included trade in services, such as banking, telecommunications, securities trading, insurance, advertising, and data processing, that often faced stiff national licensing and tax regulations (and discrimination). Services were not addressed in GATT but amounted to an estimated 30 percent of world trade in the 1980s—and double that for the United States. As well, intellectual property rights emerged as a new trade issue, especially as Third World nations copied computer software and audio and video materials to avoid the expense of developing these products or paying copyright costs. Furthermore, GATT needed to devise an agreement on trade and investment issues, because governments had adopted means to protect their markets through domestic sourcing requirements, special licenses favoring local factories, and demands that investors export a percentage of their production or balance imports with exports within the host country.

These problems were among the issues discussed at the Uruguay Round (1986–1994), the last GATT meeting before the nearly half-century-old forum

was folded into the comprehensive WTO in 1995. The pressures of globalization had so complicated and burdened trade rules that nations had formed the aforementioned regional groupings to defend their interests and undertook bilateral, trilateral, and quadrilateral (the United States, Canada, EC, and Japan) negotiations to manage trade, seek access on particular items and sectors, and resolve disputes. Such talks outside of the GATT framework undermined the multilateral regime; the postwar international trade system faced a collapse in the 1980s similar to that experienced by Bretton Woods a decade before. The global economy's American-led trade principles were in jeopardy. The Uruguay Round thus addressed not only substantive trade issues but also an update of GATT itself by enhancing surveillance and review mechanisms, strengthening links to the IMF and World Bank, and expanding its scope into new areas.

The negotiations were difficult, oftentimes rancorous, and dragged along for eight years with no resolution in sight until the 124 countries decided to conclude this most comprehensive GATT round in 1994. Industrial tariffs fell by a third, and textile quotas were phased out. Barriers to agriculture remained, but for the first time in a GATT round there was agreement on improving market access, replacement of insidious quotas with tariffs, and limits on subsidies. The safeguard codes were tightened to define harmful trade and regulate resort to protectionist measures. Contracting parties also wrote an agreement on trade in services that committed members to apply treatment on a nondiscriminatory basis and provide a formal list of policies such as limits on the number of foreign branch banks allowed to operate in a country. Rules now protected patents, trademarks, and other intellectual property rights, although they would be phased in over a long period to satisfy developing countries. Negotiations also took a first step toward a trade-investment code as well as on a telecommunications accord that was completed in 1997.[182]

The Uruguay Round exposed new issues, such as the need for rules on electronic commerce to allow access to national infrastructures, competition policy to curb cartels that unfairly aided domestic over foreign producers in home markets, and environmental and labor regulations. Regarding the environment, Americans tried to restrict tuna imports from Mexico, because that nation's fishing nets killed porpoises, which could not escape the nets. US tuna producers were forbidden from using such nets, so Washington banned sales of Mexi-





can tuna, to the applause of environmentalists. Mexico protested and the WTO eventually ruled in its favor, arguing that trade rules applied only to the content of the product and not the methods of production. Saying otherwise could set a precedent that might gut the goal of curbing discrimination in an open-door system by allowing nations any excuse to restrict trade. This was a victory for the Third World. Developing nations were ever more on guard, for they believed, like the European corporate-raider-turned-politician James Goldsmith, that the Uruguay Round would end up punishing the Third World as the "poor in the rich countries would subsidize the rich in the poor countries."[183] The emerging nations proved to be a problem, an indication that the international trade order had shifted its focus and would face challenges in the future.

Activists in the core nations recognized more than ever before that the struggles of the poor nations required more attention than they were given by the WTO and other institutions. In the age of globalization, in which people engaged in transnational, private exchanges across national borders without reliance on the state, many groups, nongovernmental organizations, and individuals got involved in helping the economic development of the emerging nations. Scholars and experts began to speak of the movement of "civil society" in which thousands of volunteer civic and social organizations cropped up between government agencies and corporations—filling a gap left by the state and the market—to effect change in the world economy. Their efforts ranged from security to social reforms and took on the characteristic of correcting the wrongs of and damage done by rampant free-market globalization.[184]

Much of this work crossed over into the realms of peacemaking, diplomacy, and social reform, as in the work with children, adoptions, and refugees undertaken by movie stars Audrey Hepburn, Brad Pitt, and Angelina Jolie (the latter worked closely with economist Jeffrey Sachs in villages throughout Africa, engaged the WEF on global economic and social issues, and donated millions of dollars to causes). The WEF itself provided a forum in which to discuss and plan measures to alleviate health and economic scourges around the world. It served to alert the public to major initiatives in health programs, for instance; the Bill & Melinda Gates Foundation offered substantial funds to fight disease worldwide at Davos meetings of the WEF. And the private Gates Foundation itself—its money earned from ownership of the Microsoft Corporation—donated some

$1.4 billion annually to health causes, more than the annual budget of the World Health Organization. The efforts went back a few decades but really accelerated in scope and effectiveness because of the communications wrought by the process of globalization. Ex-Beatle George Harrison had raised money for Bangladesh in 1971 by assembling a group of famous stars, but Bob Geldof's 1984–1985 Band Aid/Live Aid concerts, and his ten-nation Live 8 event in July 2005, which some 3 billion people watched around the world, drew on satellite technology to garner big rewards. Band Aid/Live Aid, undertaken to fight poverty in the Third World, occurred over fifteen hours with 1.7 million watching, and raised $100 million. Geldof designed Live 8 to pin down commitments of much more massive aid to the South by politicians to save the lives of an estimated 4 million people a year. In his characteristically undiplomatic fashion, he demanded that First World countries provide $50 billion per year until 2010 as well as efforts to combat AIDS and other maladies, cancel debts for thirty-eight nations (and eighteen alone in 2005), and provide free education and health care to millions of poor children, by accusing the current generation of politicians of immorally allowing world poverty to persist in times of great wealth in the North.

Other celebrities often stepped into the wake of natural disasters to help with the survival and recovery of areas. Princess Diana was well known for her efforts with victims of war. Soccer star David Beckham appeared as a UN goodwill ambassador in Thailand after the 2004 tsunami as well as in Africa. Media mogul Ted Turner of CNN offered $1 billion to the United Nations over a ten-year period beginning in 1998 for humanitarian purposes, and the funding was used in health and educational campaigns. Former US president Jimmy Carter's foundation was active in trying to stamp out guinea worm and other diseases in Africa that burdened national and local economies and hindered the development of a healthy workforce throughout the continent. The William J. Clinton Foundation did similar work, including a campaign in Malawi and Rwanda to stamp out diseases but also bring fair prices and market access for farmers. These Clinton global initiatives actually drew upon the forces of globalization by seeking finance from governments but mainly from persons who were rich and well connected in world civil society, such as Hollywood movie tycoons, petroleum-state royalty, and wealthy entrepreneurs in India. The former president enlisted some fourteen hundred paid staff and volunteers in over forty countries with a



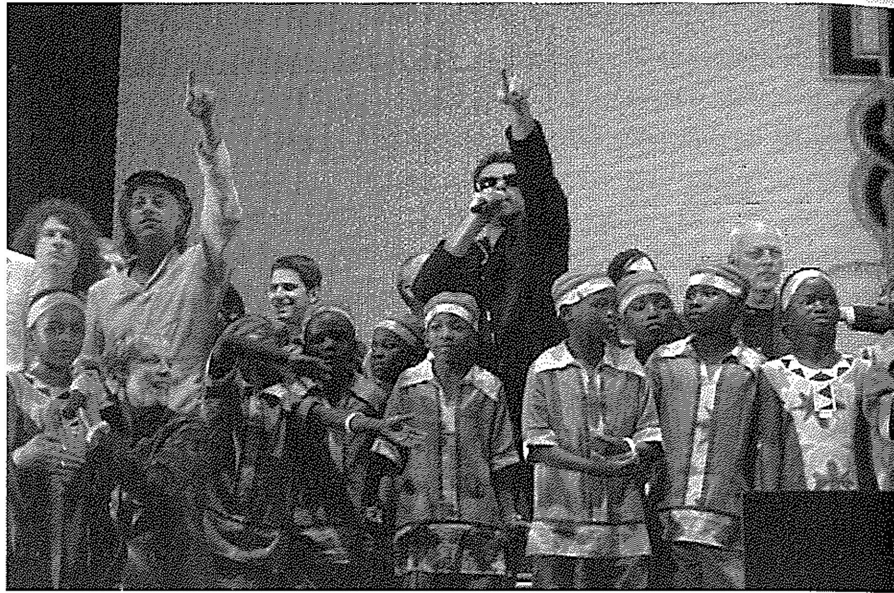


mantra of alleviating poverty and distress through market-based programs run by business, government, and nonprofits. Clinton epitomized a new process in the globalization trend—a middle way between corporations and the state.[185]

Nobody exerted more effort in the Third World, however, than the rock star Bono, who parlayed his celebrity and innovative thinking into relationships with top politicians. These connections earned him a presence at the G-8 summits of the richest nations at Gleneagles in 2005 and Heiligendamm two years later. Earlier Bono had demanded that the North cancel the debt obligations of the South. He then requested that the advanced countries contribute 7 percent of their gross national incomes to his antipoverty program in Africa. The civil society campaign in this regard did not exclude stars from the Third World. African musicians like Youssou N'Dour, Baaba Maal, and Angélique Kidjo joined Geldof on stage at Live 8.[186] Clearly, people around the world were mobilized, not just to wait for nations to negotiate trade and aid deals, but to do something on their own, and the technology and integration of economic globalization would assist them in doing so.

The next set of trade talks—the Doha Development round scheduled to begin in Qatar in 2001—was the first to occur under the WTO regime. It came on the heels of antiglobalization protests and the terrorist attacks on the United States on September 11, both of which wrought changes in the global economy. The multilateral negotiations had been slated to start in Seattle under the name Millennial Round in 1999, but the developing nations balked when the United States and European Union excluded them from talks on the traditionally difficult issue of agricultural trade barriers. They resentfully walked out of the forum, and the Seattle talks collapsed. Massive street demonstrations erupted simultaneously, led by an unlikely coalition of organized labor, environmentalists, anarchists, students, religious groups, consumer advocates, and political activists. They lobbied against corporate repression, the power of multinational firms to curb government safeguards and push for unfettered capitalism, a weakened union movement, poverty in the Third World, elitist international governance, and degradation of the Earth. Several corporations had already felt the wrath of the protesters.[187]

The Nike Company was a case in point. Drawing on various strands of the process of globalization, Nike had branded professional basketball star Michael



The Live 8 concert, London, July 2, 2005. Musician and activist Bob Geldof (in white shirt with finger in air) is joined by singer George Michael and children to perform the Beatles' tune "Hey Jude," part of the campaign by celebrities to promote aid to the impoverished poor nations of the world. (Getty Images)

Jordan himself throughout the world. The company's "swoosh" logo, coupled with "Air" Jordan's magnificent maneuvers on the court, had joined together a global sports craze with satellite communications, advertising, a foreign investment boom in China, and cheap labor in Asia to elevate Jordan to iconic status throughout the world in the 1980s. At the same time, however, tens of thousands of American laborers had lost decent-paying jobs at $5.95 an hour as Nike and other shoe companies moved production overseas. Nike paid workers in Indonesia just 14 cents an hour for shoes costing $49 to $125. By the mid-1990s this transnational came under withering attack for exploiting foreign workers by not paying a livable wage, forcing them to work overtime, preventing unionization, and overall subjecting them to subhuman conditions. In Indonesia, Vietnam, and China, it was the same story—bad wages and worse conditions. In 1997 a member of Vietnam Labor Watch, a US-based activist group seeking to protect workers abroad from predatory transnational corporations, noted after a visit to a





Nike plant in Vietnam that the supervisors humiliated women by forcing them to kneel or stand in the heat and sun as punishment for not working diligently. In another indication of the gendering of globalized work in the market economy, 90 percent of the Nike workforce of thirty-five thousand laborers were exhausted and malnourished women, who worked twelve-hour days to earn $2 for each pair of shoes made, which eventually sold for forty to fifty times that amount in the United States.

The resulting press and uproar prompted the Clinton administration to haul in Nike, L.L.Bean, Reebok, and other manufacturers (and their spokespeople) to sign a code of conduct limiting work weeks to sixty hours and requiring wages at national levels. The protesters wanted even more—recognition of unions and higher minimum wages, because the established wages were insufficient to pay for adequate food and housing. The criticism continued, but by 1997 the Asian economic crisis, along with the backlash, caused Nike sales to plummet by nearly half its record sales of $9.6 billion. Michael Jordan remained a selling point, and this corporation's profits stayed high, but the image of globalization itself had been sullied.[188]

Additional protests followed in ensuing months after the Seattle outburst. Even before Seattle in 1999, there were frequent displays of discomfort and anger over the effects of the open door in permitting transnational companies to dominate economies and even change cultural habits. Unlike Nike, which owned no factories but depended on specialists to negotiate production and costs with hundreds of manufacturers and shippers in several nations, the fast-food giant McDonald's allowed locals in over one hundred countries to operate, staff, and supply its thousands of restaurants. The headquarters in Illinois retained half ownership of these concerns. The problem was not its profits, but its detrimental influence on children's eating habits and health (weight gain, teenage mania, consumerism), family customs, and structures that trended away from networks to individuals and embraced new forms of togetherness (birthday parties at McDonald's rather than traditional celebrations at home), and a change to market values and entrepreneurship.[189]

These transformations wrought by this powerful transnational corporation were fodder for antiglobalization protesters who found the open door to be a means for predatory capitalists to alter traditions and destabilize societies, all in

the name of modernization and consumerism. Other protests were more concrete. These involved, at times, tens of thousands of people (and multiple arrests, injuries, and even a death) in Prague, Quebec City, and Genoa in 2000 and 2001, during, respectively, meetings of the IMF and World Bank, Summit of the Americas (which planned for a free trade zone of the hemisphere), and the Group of Seven industrialized powers. Trade delegations reconvened in Doha two years later, just two months after the 9/11 attacks. This horrific event gave impetus to negotiators to succeed in order to help the world economy recover and provide a show of unity among peaceful trading nations who opposed terrorism.

The seven-year Doha talks became a contest of wills between the North and a large contingent of angry traders from the South. At a Cancun gathering in 2003, a new Third World trade bloc called the G-20, led by Brazil, China, India, and South Africa, prevented resolution of four so-called "Singapore issues" (trade and investment, competition, government procurement, and customs issues) that had arisen from WTO meetings the year before and that now created controversy at the Doha Round. The developing and developed worlds were also at loggerheads over nearly every trade item, the most prominent being agriculture and more specifically export subsidies that allowed an edge over Southern commodities to European and US farmers by an artificially priced world market. Although the European delegation pledged to end subsidies, its member states—namely France—refused to go along, out of their traditional embrace of EU agricultural protectionism. By mid-2006 the Doha talks were in trouble, and the crisis deepened when the US Congress renewed farm subsidies for five years. After India's commerce minister announced that he was not "risking the livelihoods of millions of farmers" by allowing subsidies, and China backed him with a call for tariffs to protect poor producers in the South, the Doha Round collapsed in July 2008. Recrimination passed all around, and hopes for the talks to restart foundered in the ensuing global economic meltdown.[190]

That the WTO's first round of trade talks stalled signified neither that the negotiations had aborted nor the end of liberalization efforts and a crimping of globalization. Resolution was possible, for never had a major multilateral trade round failed to produce an agreement, but negotiators discussed Doha issues on the sidelines of other economic conferences throughout 2009 and not in formal





ministerial sessions in the WTO until the late fall. Globalization continued despite the trade discussion breakdown, but the process was infused with qualifications and regulations from all nations, and particularly those from the South, and especially as challenging world economic conditions made negotiators less amenable to compromise.

One area that clearly displayed the force and effects of market globalization was the environment. By the first decade of the twenty-first century, people around the world had become knowledgeable about the relationship between the global economy and the environment in which they lived. Declining quality of air, water, and ground affected all nations, and dealing with the detrimental effects of climate change—or the buzzwords "global warming"—became a top priority of the international community. The Kyoto Protocol of 1997 was an attempt to reduce greenhouse gas emissions to an agreed-upon level by 2012. The United States, the most notable polluter, accounting for over 36 percent of emission levels before the Protocol was negotiated, signed but did not ratify the accord, out of fear it would overregulate, and thus crimp, its economy. Emerging nations like China and India also were not parties to the Kyoto Protocol—these big polluters claimed that they were exempt from the requirements because their development took precedence over the environment. The Third World argued that the advanced nations should shoulder the burden of cleaning up the world and keeping it safe.[191]

Nonetheless, later accords, such as one at Montreal in 2005 and the Copenhagen agreement in 2009, pledged cutbacks in emissions (even if levels and deadlines to do so were left vague), and many localities adopted their own compliance levels. Negotiations for voluntary international partnerships to develop alternative energy sources sprang up around the world. Corporations and transnational businesses also jumped in: a group of twenty-four companies, including British Telecommunications (BT), Hewlett-Packard (HP), Toyota, Siemens, and Volkswagen, proposed a global emissions trading scheme that would set limits on how much greenhouse gas countries could emit and would define "emissions rights." This carbon "cap-and-trade" scheme assigned to corporations and other groups a certain amount of "allowances" or credits on emissions, which could be sold to big polluters who exceeded their cap. Businesses that polluted less earned profits from the credits; those that did not had to pay for polluting. Companies

sought these types of limits out of an interest in more certainty for long-term investments and a more level playing field. In other words, market principles and practices entered the environmental field.

So did technology. A leading business that focused on reducing its "carbon footprint" was coffee retailer Starbucks (which had emitted an estimated 295,000 tons of carbon in North America alone in 2003); it focused on gauging more precisely its sources of power for transport and roasting, and committed itself to generating 20 percent of its energy use from wind power. Starbucks also engaged in high-profile campaigns, such as "Green Umbrellas for a Green Cause" and the online Planet Green Game to encourage consumers to "go green." In 2009 Google also helped create a market for eco-friendliness by leading a group of forty companies (including Starbucks) in kicking off the "Climate Savers Computing Initiative," a project aimed at building and buying computers that were more energy-efficient. Neither Google, Starbucks, nor many other firms wished to disclose their carbon footprint data, because this would reveal competitive information; nevertheless, Google kept watch on the size of its emissions and sought to use noncarbon energy sources for much of its power needs, and purchased carbon offsets for the rest. Recently Google flipped the switch on 1.6 megawatts of solar power modules on the roof of its Mountain View headquarters.

Some European nations, and the Obama administration in 2009, considered imposing a "carbon tax" on "dirty" imports, although this would amount to protectionism and would have violated the market precepts of the WTO.[192]

In the poor and developing world, remedies to the plight of indigenous populations, who were often the victims of environmental degradation, sprang up as a result of the melding of market and nature. Eco-tourism and sustainable tourist initiatives flourished globally to save forests, islands, seas, and wildlife that were being damaged and depleted by globalization's thrust of transportation and communication networks into remote areas. Furthermore, many poor countries lacked the capacity for new sources of energy or the money to import them; an estimated one-third of the world's population went without the modern energy services of lights, refrigeration, and transport (let alone telecommunications and information technology). An impending population explosion in the world's poorest areas boded ill for finding solutions. Yet the World Bank did not see hopelessness, because roughly a billion people could afford commercial rates, if





the rates were reasonable and people were given aid to help pay for services. They could be turned away from such dirty, and costly, energy sources as kerosene and batteries, and toward subsidized electricity grids that already allowed the rich to live more cheaply.

As a direct result of market thinking, a "micropower" approach swept the world, in which small systems and facilities that were initially expensive could provide cheaper energy over time, as well as autonomy for poor people and groups. In Yemen, locals set up small, privately owned and operated electric generators to service households not reached by the country's inadequate grid system. In India, the Tata Energy Research Institute developed energy supply links across many small villages and focused on the efficiencies of conserving kerosene, diesel, and biomass to "green" the village. A nonprofit organization called Preferred Energy Incorporated initiated efforts in the Philippines to build a micro-hydroelectric facility on a creek to service neighboring villages. The project was jointly undertaken by several donor agencies and local residents. The donors supplied the necessary equipment, while villagers provided labor, materials, and organization. Evidence of the power of globalization was clear in the most remote and strapped areas of the world.[193]

## Crisis

In fact, trade frictions stemmed also from repeated financial problems with the post–Cold War global market system. In 1994, for instance, the sudden devaluation of the Mexican peso precipitated a currency crisis as American banks faced defaults on their enormous loans to Mexico. Only a $50 billion loan by the US government in tandem with international lending agencies stabilized the peso and prevented the collapse of many American banks. Across the world, the dissolution of the Soviet Union and its empire led to lackluster economic performance at best and sheer crisis at worst. In Eastern Europe, new democracies found themselves bereft of needed large-scale aid from Western Europe and North America in their transition to liberal capitalism. Instead, the United States and the IMF, coached by advisors such as Harvard economist Jeffrey Sachs, advocated marketization by "shock therapy" rather than by gradual stewardship—as had happened in China after the fall of Mao Zedong. The goal

was to break with the communist system through a decisive switch to free-enterprise capitalism and to promote a permanent turn to democracy. Although Poland thrived under the radical overhaul, and most of the Balkan nations fared well, the Western European investors who provided the bulk of the capital cared less for long-term growth in the region and more for quick profits. The former Soviet satellites counted on integration into the EU for their development when big aid packages were not forthcoming from a rather visionless Western Europe, which was preoccupied with its own problems and fearful of weakening their union by admitting southern Europeans susceptible to Islamic fundamentalism. EU enlargement took place, but only after the damage of shock therapy was done. For Russia, the experiment turned out to be most challenging.[194]

The advent of Russian Federation president Boris Yeltsin's plan for radical market reforms through austerity programs advocated by the United States and the IMF in late 1991 plunged Russia into economic crisis. Shock therapy's ripping apart of the socialist system by rapid privatization and termination of price controls pushed an estimated one-third of the population into poverty. Both the gross domestic product and industrial output contracted by half. By 1995 the neoliberal market jolt prevented Russia from paying off its external debt, and privatization handed over state enterprises to corrupt officials with ties to organized crime. An enriched Russian mafia exported much of their newfound wealth from the country in an outpouring of billions of dollars in capital flight. Meanwhile, Russia decayed into depression, environmental degradation, and occasional violent lawlessness as strongman rule clamped down on the commanding heights of the economy. As a result, the capitalist world abandoned its policy of rapid change, searching for ways to create "less shock and more therapy for the Russian people," noted a Clinton administration official.[195] Communism was surely dead in this pillar of Marxism, but the process of globalization undercut the very fabric of Russian society and placed in question the country's viability.

The global market economy again revealed its vulnerabilities and interdependence, and the tension between American market ideas and American power and leadership, during the so-called Asian crisis of 1997–1998. Investors in Thailand had borrowed in foreign currencies to finance stocks and real estate, but when values went sour they began to sell Thai currency (the baht) and seek cover in dollars or yen. In short, the government tried to buy up the baht to the tune of





$20 billion, in order to maintain its value against the US dollar, but the effort failed and the currency was allowed to float. As a result it lost nearly half of its value in a matter of days, despite massive government purchases, and by September 1997 the baht had been devalued by 70 percent relative to the US dollar. Due to the integration of the ASEAN nations, the lack of confidence in Thailand's economy spread anxiety to neighboring Malaysia, South Korea, Indonesia, Singapore, and the Philippines. They witnessed tremendous selling sprees of their currencies as capital sought haven elsewhere. Stock markets plunged, losing one-third to one-half of their values, for investors understood that firms would be unable to repay debt due to the plunging values of regional currencies. Indonesia's stock values fell by 46 percent and Malaysia's by half. Exchange rates followed downward; the Filipino peso dropped in value by one-fourth. About 150 financial institutions in Asia closed or suspended operations, were nationalized, or came under IMF control.

A sudden and severe recession swept over a region that had been noted for its vigorous growth through globalization. South Korea, for one, saw its eleventh-place world economic ranking, based on gross domestic product, fall to seventeenth, behind India, Russia, and Mexico, in a matter of two months. The Four Tigers were tamed (South Korea accepted an IMF bailout in return for laying off millions of workers) and Japan—already suffering economic woes—also felt the sting. The effects lingered for a year or so. For instance, the Philippines experienced zero growth in 1998. The Asian contagion then spread beyond the region into Russia, Brazil, and Argentina and threatened to infect the entire world. In late October 1997, the US stock market fell by 7.2 percent on worries about the Asian crisis. Indonesia erupted in riots to protest the suffering caused by the downturn, its dictator fell from power after a thirty-year reign, and Thailand's prime minister also resigned.[196]

Globalization had been trumpeted as ushering in the end of history—meaning the arrival of liberal democracy, including open-door capitalism, as the final form of human governance. But now American free-market ideology and its Washington/Wall Street advocates were branded as dangers to the world economy. As money flowed around the globe through financial liberalization in a borderless world, the IMF had joined purveyors of American free-enterprise to demand that nations liberalize capital accounts in order to right their payments

deficits. Washington, for its part, blamed foreign corruption and inadequate accounting standards for the crisis and pushed for even more liberalization as the remedy. Treasury Secretary Robert Rubin, who had coordinated the bailout of the Mexican peso four years earlier, and Federal Reserve chairman Alan Greenspan turned to the IMF to quell the turmoil, much like the United States had done during the Latin American debt crisis of the previous decade. They demanded heightened free-market practices in every nation. Thus, beginning in October 1998, Greenspan lowered American interest rates six times to stimulate imports from Asia. This helped nations of the region repay debt obligations but placed further stress on vulnerable US industries like apparel manufacturing, which closed up shop and moved abroad to Mexico, Pakistan, or China, where labor costs were cheaper. In Asia, Thailand and Malaysia led others in tough reforms of their domestic economies by imposing regulations on banks and austerity measures to attract international investors. Clearly, crises stemmed from greed and overreaching but also from the fundamentals of transnational production, vast capital transfers, and other elements of the globalization process that enriched hundreds of millions of people but did not help billions more.[197] The Asian financial fiasco abated, although the upturn would not endure for long once the 9/11 tragedy rocked the global economy and exposed the vulnerabilities of supply chains that stretched around the world.

## Market or State?

The terrorist attack orchestrated by Osama bin Laden showed the dangers and pitfalls of market doctrine, in that globalization fulfilled the long-held postwar American hope for openness, which by its very nature, ironically, facilitated such deeds. Open borders not only boosted access for corporations around the world but allowed criminals and terrorists ease of entry. Nations had been dealing with drug networks and transnational gang and criminal violence for decades; narcotics trade amounted to an estimated $500 billion a year by the new millennium, and gangs raked in somewhere around $7 billion as they annually moved four to five million people across borders. Criminals mimicked corporations in forging alliances to maximize efficiency, promote cooperative endeavors to enhance profits and opportunities, and include people of diverse backgrounds who





could operate within the dominant culture. Bin Laden took advantage of the Information Age, with its easy access to technological know-how, by obtaining instructions from the Internet on making explosives. The migration of millions of people across borders allowed his suicide teams to pose as students and tourists in this jet-set era of expanding, cheap travel. The boom in container shipping in the integrated transportation system wrought by the global economy and lax security procedures on the part of overwhelmed American customs officials allowed the relatively unchecked entry of tens of thousands of containers flowing in and out of ports daily. Terrorist networks, along with drug-runners and gangs, thrived in such an accessible, permeable, and huge open market that was difficult to police due to its sheer size and volume of commerce.[198]

Signs of global recovery from the September 11 attacks were apparent as early as 2002, and international trade and investments resumed amidst the sober realization that globalization would continue despite the subsequent turn toward reliance on the state, national security concerns, and war. In essence, although the world could not return to the Washington-led framework of a half century before, it was evident that the market had not replaced the nation as the only dynamic actor in the world economy. And history could repeat itself in another way, as global economic downturns did not seem to be products of a dusty, irrelevant past. By late 2006 the world headed once again toward a collapse of banking and manufacturing, as it had faced seventy years prior. And once more the market leader—the United States—stood at the fore of the problems.

When American home prices began to fall, a rash of defaults on subprime home mortgages (loans made to low-income homeowners with troubled credit histories) ensued and triggered a massive number of foreclosures. Loans and securities backed by subprime mortgages lost their value, straining the banking and insurance systems in the United States and then worldwide. A global credit crunch followed. By mid-2008 the world economy was rocked by a sharp rise in gasoline prices to levels not seen since the oil crises of the 1970s. By October the IMF issued a bleak forecast, predicting that the advanced nations were already in or approaching a severe recession and that growth for the following year would be the slowest since the 9/11 tragedy. Risk taking and major players in investment markets—Bear Stearns, American International Group, Lehman Brothers, Merrill Lynch, and Citigroup—went out of business or were acquired

by competitors for a fraction of their previous value. The two big US government lenders, Freddie Mac and Fannie Mae, saw their $5 trillion in mortgage-backed securities placed in conservatorship by the government.[199] As central banks scrambled to pump liquidity into frozen money markets, the IMF warned that not only would the housing slump in America, Spain, and elsewhere crimp the North, but developing nations would also suffer from soaring food and fuel prices and slackening demand. "The world economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s," noted an IMF report at the end of the year.[200]

That statement proved prophetic; by March 2009 the economic news was bleak around the world. Taiwan's output had shrunk by over 8 percent in the last quarter of 2008 alone, Russian and American unemployment rose to above 8 percent, the currencies of Eastern Europe plummeted against the euro and the dollar, Japan faced its worst recession in decades (including the "lost decade" of the 1990s), and automakers around the world were heading for bankruptcy. Some observers even saw a complete failure of capitalism and America and the world descending into a prolonged depression.[201]

Iceland's experience with privatized banking speculation gone mad showed the dangers of both greed and a shaky world credit system so integrated by globalization that tremors in one economy affected many others. The country's finances literally collapsed, but not because of exposure to the American subprime mortgage crisis. Rather, the sickness was due to excessive leveraging—too much reliance on debt as a means to enhance returns on investments. Borrowing heavily from foreign lenders and depositors, banks lent freely to investors who leveraged their capital in a buyout spree across Europe on the notion that the stock market would forever rise, rather than on basing their accounts on adequate reserves. Icelanders became affluent by running up tremendous debt by borrowing from foreign banks that offered lower interest rates than they could receive at home. As long as the Icelandic króna remained strong, repayments of these loans were feasible. As insolvency hit worldwide financial markets in 2008, however, foreign banks stopped lending and the króna lost 43 percent of its value against the dollar. Soon no traders would buy it; interbank lending halted. Bankruptcies swept the world and over the country and the stock market shut down temporarily. The government nationalized the banking system. Yet thousands of individ-





ual depositors in Britain, Denmark, Germany, the Netherlands, Austria, and Norway who had invested heavily in Iceland's banks (Britain had deposits of $1.3 billion, for example) now demanded repayment. When it was not forthcoming some agreed to temporary loans to Iceland, whereas the Netherlands and Britain froze Iceland's assets in their countries and sued Iceland. The meltdown that came to pass in 2008 and 2009 hinged, at bottom, on disproportionate global debt that threw the world credit markets into crisis.[202]

As stock markets embarked on roller-coaster rides, plunging by hundreds of points in a single day then rising just as sharply the next, governments and financiers around the world huddled to strategize about solutions. Central banks coordinated interest-rate cuts, although the tumult continued in the economy. In Asia, which was experienced with such turmoil, the free-falling dollar posed worries. Critical exports abroad slowed; Japanese carmakers witnessed such a falloff in consumer demand in the United States, and a world mired in the worst auto downturn in a quarter century, that Toyota suffered its first losses since its birth in 1937. Like others in the industry, it turned to belt tightening by curbing worker benefits and even pondering layoffs. Indonesia's stock market halted trading repeatedly during these years, and investors looked for safe havens in banking systems in precarious situations at best. There were not many safe places to deposit money. Analysts agreed that interest-rate cuts would not be sufficient; conventional macroeconomic tools could not prevent violent market gyrations that threatened the biggest global economic collapse since the Great Depression.[203]

Soon most nations announced huge financial aid packages (the administration of George W. Bush stepped in with tax rebates and then a huge bailout of the financial sector totaling $700 billion, and President Barak Obama added billions more to the emergency aid to institutions and consumers alike in 2009) to rescue failing banks in a move that amounted to the nationalization of the global financial network. The "Big Three" American carmakers also trooped to Capitol Hill, requesting government assistance for the beleaguered US auto industry. Bush stepped in with minimal assistance when Congress refused to help, and then the Obama administration shored up Detroit with funds while it oversaw bankruptcy deliberations by General Motors and Chrysler to compel reorganizations that might save millions of jobs. Whether these fixtures in the

The Great Recession begins, November 15, 2008. Protesters rallied in Reykjavik against the Icelandic government's inept and permissive policies toward banks. As bankruptcies mounted and the Icelandic króna lost its value with the onset of the global financial collapse, the government nationalized the banking system. (AFP/Getty Images)

American economy would survive remained in question as globalization took its toll.[204]

The outlook slowly improved but it was clear that in many cases, the world economy had changed for the worse. By spring 2010, US banks had lost about $885 billion, British financial institutions suffered a drain of $455 billion, euro zone banks saw their accounts plummet by $665 billion, and Asian losses amounted to $2.3 billion. Spain, Hungary, and Greece threatened to default on their debts; overextended banks in France, Germany, and Austria created fears of more turmoil and instability ahead, and even an undermining of the euro. Leaders at G-20 summits pledged to reform finances and trade, and seek to create more employment, but they undertook few specific measures to address their growing public debts and balance-of-payments imbalances. Still, by late 2010 the global economic signs improved for sustained growth; into 2012 the employment picture picked up in America, even as it sagged in Europe.





Regardless of the better forecasts for international recovery, nations and transnationals around the world were entering, many feared, their own lost decade. Iceland's experience was one example, as was the ouster, due to the Japanese people's frustration with fifteen years of prolonged recession, of the political party that had long been predominant in Japan. The number of "failed states" in the emerging world also increased: in Somalia, so few people benefited from the agricultural export economy that many turned to piracy. Zimbabwe's corrupt government provoked violence and left that country bereft of a workable economic structure, and its people with a lower per capita gross domestic product ($200) than Somalia's pathetic level of $600 (the US figure was $49,900 in 2009). Inflation soared; outsiders estimated that four out of five Zimbabweans lived in abject poverty, and the country perched on the brink of total collapse. Africa had, on average, never fared well under the market regime of globalization, but the economic crisis of 2008–2009 worsened its prospects even further.[205]

Giant stimulus plans in Europe, North America, and Asia showed, at least, how interlinked the global economy had become and that no nation, institution, or investor could make a move independently of another. Like India, Brazil, and South Africa, China went on a stock-trading spree in the first decade of the 2000s; stock trading amounted to 230 percent of the nation's gross domestic production in 2007 (quadrupling over seven years). The country's merchandise trade also skyrocketed over the same period. And China, which held a significant portion of US debt, warned the Americans on this score. For their part, Americans worried about China's growing presence in their economy. They were unable fully to accept that financial markets were so globalized that there was no escaping the influence of another big power.[206] As American economist and Nobel Prize winner Paul Krugman noted, the need for international cooperation was imperative, "because we have a globalized financial system in which a crisis that began with a bubble in Florida condos and California McMansions has caused monetary catastrophe in Iceland. We're all in this together, and need a shared solution."[207] Such sentiment was widely shared and acted upon.

In September 2009 the G-20 summit of the twenty largest economies in the world met in Pittsburgh, Pennsylvania, to discuss the economic crisis and how to reshape policies to safeguard the global market. Leaders debated a host of transnational problems, including security and environmental issues alongside

the weak economy. They focused on the current recovery agenda but also acknowledged a significant transformation, agreeing that for future discussions of the agenda for global economic matters they would replace the exclusive G-8 gathering with the G-20 group, which included emerging powerhouses like China, Brazil, and India. Some experts looked on this development as a watershed, a point in history where the power to arbitrate world market forces shifted beyond the United States and Europe.[208]

Forecasters soon looked more positively on the world economy, although they were not greatly excited. High-income nations were expected to grow by about 2.7 percent between 2010 and 2012, while poorer nations' economies, having not suffered from the downswing in stocks and credit defaults, were fairly stable. Outside of the Eurozone, recovery and growth appeared to be in the cards; in China, Russia, Brazil, Mexico, and India, growth would be robust (although not as stellar as before, as, for instance, in China), and even the US economy was deemed to return to some dynamism as losses in bank assets declined below expectations. Great Britain suffered through extreme austerity measures to position itself for recovery in the future. However, the uncertainty in Europe due to the continuing debt crisis, which had spread to Ireland and Spain, troubled economists. Even the strongest economy in Europe—Germany—grew anemically at 1.2 percent in 2010, a rate that would rise the next year only to 1.7 percent. As a whole, the Eurozone nations had growth rates at a feeble 1 percent in 2010. And although capital flows rose to the developing nations, fiscal restraints in the rich nations would likely reduce the amount of aid to the Third World. This would have serious consequences for Third World economies and modernization. Subtracting the solidly growing countries like China and India, the developing world was still in the doldrums.

In short, the record indicated a slow but steady uptick in economic activity worldwide, but that the global economy would remain fairly sluggish—and especially unable to provide the necessary large percentage increases in employment activity—for the medium term.[209] In response, bankers were heartened, as were stock exchanges around the world, but the optimism was tempered by a wave of protests, beginning in Spain and spreading worldwide by October 2011. Spurred by demonstrations at the capitalist system's ground zero—Wall Street—protesters demanded an accounting by the supposed richest "1 percent" of the





population, who profited at the expense of the "99 percent," the middle and lower classes. That the powerful recovered, abetted by politicians, while the vast majority of the middle and working classes remained mired in recession, was not too hard to fathom, just as the Arab Spring, beginning in 2010, showed that a large percentage of, say, Egyptians barely subsisted while a fraction of the elites prospered. For decades the working and middle classes have been undermined by distant global—and unelected—bureaucracies and financiers, whom protesters believed were held unaccountable to the common voter, and who were beneficiaries of the great movement of the times—market globalization.[210] Any improvement in the global economy was a welcome development, although paradoxically it took another world financial contagion to show both the perils and the possibilities of the post–World War II American march through the open door to a regime of free enterprise and globalization that guided the economic hopes, political protests, policies, and prospects of a host of nations and transnationals.

## The Record

Even though the severe recession of 2008–2009 put in question the merits of deregulation of the global economy, that downturn signaled the integration of stock markets, banks, and producers around the world. The open-door model was under stress but trundled on as a paradigm, in part by default but largely because it offered the potential for growth, profit, and development, just as it had since 1945. American leadership weakened as new powerhouses in Europe and Asia challenged Washington's hegemony. Thus, perhaps the most marked success of US stewardship paradoxically undermined American strength at the same time. That is, the United States created and engineered a global capitalist economy, based on free enterprise precepts, that was so open and expansive that it led to democratization in the management of trade and finances. Pluralism and power sharing signaled true globalization—the objective of the United States for decades. In the world economy, there was no longer any room for the unilateralism of the immediate postwar era or even the heavy-handed policies of the Nixon period. Globalization required global collaboration; no person, corporation, or country was an island.

While globalization endures as a work in progress—mainly because it is a process and not an end result of exchanges in the world capitalist order—the record since 1945 reveals winners and losers under the American regime of open doors and multilateralism. All traders and investors enjoyed ups and suffered downs during this long period; the miraculous rise of Japan and then its spectacular slide in the 1990s was a case in point, as is Germany's ascent from barbarity and utter destruction in World War II to the heights of European capitalism and then its recent struggles with high unemployment. The United States reigned supreme over the global economy just after the war and fell into the doldrums of the 1970s but emerged as the champion of globalization in the 1990s. Thailand turned out to be richer than most developing countries, but its quality of life was lower than most—Thai citizens enjoyed high incomes but lacked proper sewage systems, suffered from flooding, and played catch-up in the Information Age because they lacked sufficient high-tech expertise. Some nations never recovered their economic grandeur in the postcolonial era, yet European imperialists such as Britain, France, and Holland found success in regional integration. In Africa, Latin America, areas of the Middle East, and parts of the old European communist bloc, the ills of economic mismanagement, debt, natural crises, insecurity, doctrinaire market policies, inadequate generosity and patience with diverse models of development in the North (and especially on the part of the United States), and a lack of self-sufficiency mired hundreds of millions of people in poverty (although the United Nations found that the number of people living in extreme economic duress worldwide dropped from 1.8 billion in 1990 to 1.4 billion fifteen years later—much of this due to prosperity in China).[211] It should also not be forgotten that one of the golden eras of globalization—the late nineteenth century and early twentieth century, which witnessed improved communications, high growth rates, financial and investment stability, and world economic integration—ended abruptly with the disaster of a world war in 1914. Politics and power can interfere again with the process of globalization.

Although the world economy benefited some and hurt others, and although people around the globe could hope but also despair, it was clear that leaders would continue to wrestle with economic theories, models, and results. Just like during and after the Second World War, experts and politicians would continue





to debate the problems of economic structures, processes, and power-sharing struggles, and even issues of morality in the global economy. People, corporations, and other transnational entities would carry seeds of change, protest, and growth with them as they crossed national boundaries. Countries would put forth new plans and negotiate agreements to forge an ever-expansive system of profit that met needs and ambitions. The United States showed no signs of succumbing to the status of a second-rate has-been, even as it struggled to influence the world economy. At the heart of American designs lay the force of the market that the United States injected across the globe, along with its sheer size and economic power. Postwar American free-enterprise ideology and practices opened the door to the explosion of globalization, which would be battered and contested as well as nurtured and applauded by nations and peoples around the planet. Market forces proved transformative in various ways and with many consequences, as the United States unleashed the power of free enterprise that shaped the lives of billions in negative and positive ways.