Chapter One

Introduction

International political economy (IPE) is a study of interactions between states and markets at the international level. More specifically, IPE is a study of how political and economic variables facilitate or obstruct international economic transactions. IPE assumes that pure markets, unencumbered by political intervention and regulation, do not exist and that it is impossible to demarcate the empirical contents of economics and politics.

Through much of the postwar period, the discipline of international politics was narrowly focused on issues of international security and conflict. This was understandable in the context of a Cold War between the United States and Soviet Union. However, in the 1970s, an easing of Cold War tensions created an opening for non-security issues to emerge on the disciplinary agenda. At the same time, a series of international economic crises, including the collapse of the Bretton-Woods monetary regime, quadrupling of oil prices, and stagflationary pressures in the West, led to a better understanding of linkages between politics and economics. For example, the sharp hike in oil prices, in 1973, was part of an attempt by Arab members of the Organization of Petroleum Exporting Countries (OPEC) to use an economic resource as a weapon to realize their political objectives. Similarly, growing economic interdependence globally has diminished the policy autonomy of states, with obvious political consequences. Economic interdependence was an important new development in the 1970s. The main impact of interdependence was to leave national economies more sensitive and vulnerable to external developments. More recently, scholars have labelled contemporary developments as globalization, a progressive replacement of segmented national economies with an undifferentiated global economy.

The difference between globalization and interdependence is that while the latter was essentially an exchange-based linking of economies, the former includes an integration of economies through production and financial networks. The evolving seamless global economy is dominated by large multinational corporations and would not have been possible without revolutionary new developments in information and communications technology (ICT), which made it possible for corporations to overcome the tyranny of space and time. Yet, as we shall see below, technology alone does not provide an explanation for the establishment of global production and financial networks. The new reality is still in a process of "becoming", but it is useful to trace its origins.

Globalization incorporates both an inclusionary expansion and a transformation of production processes. Inclusionary expansion followed the collapse of non-market economies and removal of the East–West economic divide. During the Cold War, economic exchange between the two blocs was limited and eastern bloc countries had limited access to western multilateral agencies, like the GATT. In the late 1980s, GATT for example, had approximately 90 member countries but by 2007 the membership base of World Trade Organization, successor to the GATT, had expanded to include almost all the countries. Globalization is also defined by a rapid transformation of economic activity, the movement towards a single global market and global production strategies. The globalization of production, distribution and marketing of goods and services,[1] is the key to understanding the contemporary international political economy.

End of the Cold War

Although not hermetically sealed, the postwar international political economy was divided into two separate groupings, one dominated by the United States and the other by the Soviet Union. The western liberal international economic order was premised on principles of non-discrimination and decentralized market-based decision-making. By contrast, the eastern Soviet-dominated economic regime (Council for Mutual Economic assistance, or CMEA) was based on the principle of centralized decision-making. Because of this difference in organizing principles, CMEA members were not considered eligible for membership in western institutions, like the GATT.

The CMEA was founded by the USSR, Poland, Czechoslovakia, Hungary, Romania and Bulgaria in January 1949 and until the early 1960s, it was an agglomeration of East European countries. Mongolia, in 1962, was the first non-European country to be granted full participation in the CMEA. Others, like Cuba and Vietnam, became participating members in the 1970s.

In its early years, CMEA was essentially a mechanism for extending Soviet control over the other members through coercive policies. But according to Michael Marrese, the Soviets soon realized that the allegiance of East European countries could not be secured effectively via the stick alone and resorted to a new policy that employed a combination of the carrot (trade subsidization) and the stick (the threat of armed intervention).[2] Thereafter, East European countries posted significant economic gains as the Soviet Union provided them with raw materials at below world market prices and purchased their (allegedly shoddy) manufactured goods at above international market prices.[3] This enabled the Soviet Union to demand political loyalty and subservience in exchange for economic privileges but proved detrimental to the Soviet economy, which was essentially subsidising living standards in East Europe, Cuba and elsewhere through the supply of cheap minerals and fuels, and monetary aid.

The collapse of communism was precipitated by Soviet economic reforms and a retraction of the Brezhnev Doctrine. Economic reforms were introduced in the Soviet Union, in the mid 1980s, in response to a worsening economic crisis. Soviet economic malaise was largely, a product of intensified Cold War rivalry in the early 1980s that diverted economic resources away from productive sectors to military programs, and exposed vulnerabilities and inefficiencies of a command economy. The reform agenda quickly snowballed and led to the abandonment of communism. The Brezhnev Doctrine emphasized socialist unity and the right of the Soviet Union to intervene elsewhere in defense of socialism. Its retraction removed the spectre of Soviet military intervention in East European countries in defense of socialism, as had happened in Hungary in 1956 and in Czechoslovakia in 1968, when they initiated reforms and began to gravitate out of the Soviet sphere of influence. Following retraction of the Brezhnev Doctrine, the centralized economic and political structures of East European countries gave way to a greater reliance on market mechanisms and political competition.

At the height of Cold War confrontations, some East European countries were allowed conditional membership of the GATT, for instance, in order to entice them away from Soviet domination and weaken eastern bloc integrity. Yugoslavia became the first East European country to join GATT in 1966 and later similar conditional membership was extended to Poland, Hungary and others. The conditions on Polish membership required it to increase annual imports from GATT member countries by 7 percent to compensate for a similar annual increase in exports anticipated out of Poland's participation in the GATT.[4] This condition was felt necessary to prevent a trade imbalance arising from the fact that, in East European economies, import and export decisions were made by state authorities rather than by market forces. Following the collapse of communism, East European countries and others joined the WTO as normal members. In early 2008, Russia was the only major country still outside the WTO but its membership application was in the final stages of negotiations and expected to be approved soon.

Global Production Networks

The fall of communism created a unitary global political economy, but the formation of global markets, transcending national borders, was more significant to the emergence of globalization. A definition of globalization includes not only the integration of the world through a process of economic exchange in finished goods and commodities, but also the development of global production network where trade is increasingly intra-firm trade, and in parts and components rather than finished products. An example of global manufacturing is the Ford Escort, which is produced in the United Kingdom by an American automobile company with components and raw materials sourced from 11 countries.[5] Other instances of globalization include American companies which handle telephone inquiries through operators in the Caribbean, or Swiss Air which has some of its accounting done in New Delhi.[6] Global manufacturing processes have increasingly liberated firms from national control, a development that has prompted analysts to suggest that the world economy is 'in control', superseding the macroeconomics of nation-states on which much of the economic theory, whether Keynesian, monetarist or Marxist, still anachronistically focuses.[7]

Globalization of production was facilitated by revolutionary advances in communications and information technology. But its causation can be traced to a combination primarily of, trade liberalization in the postwar period, neo-protectionism in the 1970s and 1980s, and the Plaza Accord of 1985. While globalization is a logical extension of the process of liberalization and interdependence after the Second World War, it has also been profoundly shaped by the illiberal forces of neo-protectionism and by exchange rate adjustments in the 1980s. The latter two instigated Japanese manufacturing investment in a number of developed countries. Neo–protectionism in important consumer markets, encouraged Japanese manufacturers to establish production facilities in their export markets to retain market share. This explains the rapid surge in investment in the United States, for example, in the automobile industry. Whereas, prior to the restrictions on Japanese automobile exports in 1981, Japanese car manufacturers had relied exclusively on exports to service consumer demand in the United States.

Appreciation of the Japanese Yen, following the Plaza Accord of September 1985, accelerated globalization further because it forced Japanese manufacturers to seek cheaper production platforms in East Asia. This development was instrumental to the emergence of regional production networks and ultimately, to global production networks — a core element of contemporary globalization. It is interesting that although globalization was at least partly, a response to the imperative to lower production costs, the net result of globalization has been to increase transaction costs for firms. According to John Dunning, the advent of globalization has led to an increase in the relative significance of transaction to production costs of doing business.[8]

The Reality of Globalization

Economic globalization has not developed uniformly across all aspects of international economic relations. It is most pronounced in trade and financial relations but not in labor market relations. Labor remains relatively confined to national jurisdictions even though there are attempts, led by some of the advanced economies to standardize labor market conditions globally, and by developing countries to expand mobility of workers across borders. Attempts to standardize labor market conditions have not attracted majority support. Developing countries in particular, fear that harmonization presumably at a higher level of labor regulations, will erode their competitive advantage and prove detrimental to their growth prospects. Developing countries also argue that globalization without easier labor mobility puts them at a disadvantage because of foregone potential benefit of savings and investment capital repatriated by expatriate workers. There is no logical reason why globalization should not extend to labor mobility but there is little realistic probability of significant change, given prevailing western preoccupation with border security and protection.

On the other hand, western countries and multilateral agencies have relied on incentives and sanctions to pressure developing countries to pursue trade and financial liberalization and to deepen their participation in the global economy. Influenced by a "Washington Consensus" to transform developing countries in line with policy prescriptives grounded in neo-liberal economics, such as privatization, deregulation, liberal trade, tariff policies, etc., multilateral agencies like the International Monetary Fund (IMF) and the World Bank (WB) have used their lending programs to extract such commitments from developing countries. Conditional lending by IMF and WB has been defended as essential to better growth performance in developing countries but in some case, atleast premature liberalization has led to economic distress. For instance, the Asian financial crisis of 1997 was partly a result of premature financial liberalization before domestic financial institutions had acquired the capacity to withstand unforgiving global market forces. Whatever the merits of globalization, in the aftermath of the Asian crisis, it is recognized that developing countries should defer large-scale liberalization until they acquire appropriate institutional capacity. Thus, Ha-Joon Chang writes "The more recent economic success stories of China and increasingly India, are examples that show the importance of strategic, rather than unconditional, integration with the global economy based on a nationalistic vision".[9]

Globalization is reflected in the rapid increase in share of trade (exports plus imports) in the Gross Domestic Product (GDP) of a country, increasing share of intra-firm trade and of trade in components and parts (as indicators of global production networks), a rapid increase in the flow of capital across borders, and foreign direct investment. For example, in the 10-year period between the mid-1980s and mid-1990s, the share of trade in GDP for the developing countries increased from 33 percent to around 43 percent. For the high income developed countries, the same ratio increased from around 24 percent to about 33 percent.[10] World trade growth has also, throughout the postwar period, outpaced the growth in production. Average annual growth of world merchandise trade between 1950 and 1994 was around 6 percent compared to world output growth of 4 percent. The value of world merchandise trade in 2005 was approximately US$10.1 trillion, an increase of 13 percent over 2004. Similarly, (foreign direct investment FDI) flows increased from US$115 billion in 1990 to about US$1.2 trillion in 2006. FDI may still be only a fraction of world merchandize trade but FDI flows have contributed to economic globalization through a web of global production networks.

Foreign direct investment for instance, is geared not only to consumption demand in the host country, as suggested by the product-cycle theory but is also, increasingly, a part of a global production and marketing strategy. This has, consequently, increased the share of intra-firm trade in total world trade and is a testimony to the role of multinational corporations (MNCs) in the global economy. At the beginning of the 1990s, there were approximately 35,000 MNCs, the largest 300 of which accounted for one-quarter of all developing countries' corporate assets.[11] This was a clear reflection of the growing importance of MNCs in developing countries and the push by these firms to gain cost advantage by shifting some productive activities to low-cost countries.

Reflecting the prominent role of MNCs, the share of intra-firm trade, as opposed to arms-length trading, is substantial. According to OECD statistics, nearly 40 percent of total United States goods trade in the late 1990s was intra-firm. But if we look at a specific bilateral relationship, it is worth noting that 73 percent of United States imports from Japan was intra-firm import.

There are of course sceptics, who are less convinced of the reality of globalization. Richard Harris for example, argues that globalization is still a ways off because of the natural limits posed by politics, culture, language, and distance.[12] Even less sympathetic to globalization is Bairoch, who finds that globalization is not the significant new development that it is claimed to be. He argues that, historically periods of high internationalization (globalization) have alternated with periods of low internationalization and that contemporary globalization is simply an aspect of this long-term cyclical trend (see Table 1.1). This leads him to conclude that, even for a country like the United States, where the case for globalization seems to be most obvious, the process is not a new one.[13] This view is shared by Paul Krugman who writes that, "historians of the international economy date the emergence of a truly global economy to the forties — the 1840s, when the railroads and steamships reduced transport costs to the point where large-scale shipment of bulk commodities became possible."[14]

The statistical evidence presented above, however, conceals important undercurrents of change in the contemporary period. As the example

Table 1.1: Merchandise exports as percentage of GDP.

	Western developed countries	United States	Western Europe	EEC (12 members)	Japan
1890	11.7	6.7	14.9	—	5.1
1913	12.9	6.4	18.3	—	12.6
1929	9.8	5.0	14.5	—	13.6
1938	6.2	3.7	7.1	—	13.0
1950	7.8	3.8	13.4	12.9	6.8
1970	10.2	4.0	17.4	16.7	9.7
1992	14.3	7.5	21.7	21.1	8.8

Note: The figures are three year averages, except for 1950.

Source: Bairoch (1996).

of the Ford Escort demonstrates, manufactured products are no longer traded, largely as, consumer goods or capital goods, but increasingly as intermediate goods. This feature of contemporary trading patterns has produced a much higher level of economic integration than in the past. Globalization cannot be conflated to an increase in exports and imports and globalization of production processes has injected a unique new dimension to the contemporary period. Robert Boyer and Daniel Drache acknowledge that, "today's globalization is qualitatively and quantitatively different from previous periods."[15]

Significantly, globalization has blurred distinctions between trade and investment. It is a fact that many countries, while encouraging foreign investment, also impose performance criteria to force foreign firms to comply with local content requirements or minimum export requirements. Both have major implications for international trade and it became obvious that investment issues could not be dealt with separately from trade issues, or that GATT, as the machinery to deal with trade, could not ignore investment issues. The earliest proposal, however, was to develop a separate and independent regime on investments. In 1970, Goldberg and Kindleberger, for example, recommended establishing a new body, similar to GATT, to formulate a set of rules and dispute settlement procedures for foreign investment flows.[16] Instead, when the Uruguay Round opened, foreign direct investment was brought under GATT purview. Thus one obvious consequence of globalization has been to push GATT, and its successor the World Trade Organization, into new areas.

Globalization and the Nation State

The impact of globalization on state autonomy has attracted considerable attention. It is suggested for example, that globalization has rendered states obsolescent and unable, to preserve traditional patterns of international relations in the face of global market forces. Even if this is debatable and the state system unlikely to disappear, globalization has complicated the task of national economic management. In many instances, global economic forces are beyond the control of national government, even when governments act collusively. In practical terms, globalization has raised the costs of bad governmental policies, such as fiscal deficits, over-regulation of the economy, and labor market rigidities.[17]

The existing literature on globalization and the nation state can be classified into two groups. The first emphasizes the transformation or the "transformational potential" of globalization.[18] Ruggie, for example, argued that globalization not only enhanced the role of multinational and transnational corporations within the international political economy but also unleashed forces, which could alter the way we conceptualize world politics and international political economy, especially in regards to territoriality and state sovereignty. He argued that the relationship between transnationalism and contemporary state system was not unlike that between medieval trade fairs and feudal authority structures. While the feudal lords encouraged trade fairs as a source of revenue, these fairs also contributed significantly to the demise of feudal authority relations,[19] and in initiating the capitalist revolution.

If true, globalization has initiated a transformation of world politics, away from a system of segmented, although interlinked, political and economic units to one of the political segmentation alongside a single global economy. This raises questions on the emerging relationship between nation states and a single global economy. Kenichi Ohmae, for example, highlights the expanded horizon of producers and consumers alike and popularized the concept of a "borderless" economy. He heralded the emergence of a "nationalitiless" global market with a significantly diminished role for national governments. He relegated the government to the backseat, not the driver's position, and its role to ensuring that the country benefited fully from the best-performing corporations and producers in the world, at the lowest possible cost to their people on a long-term basis.[20]

The second view is exemplified by, for example, Kapstein, and Hirst and Thompson. Kapstein argues that, despite globalization, there has been no significant change in contemporary structures and that states have retained full economic and political sovereignty.[21] He argues that throughout history, states have shown a remarkable ability to adapt to changing circumstances and there is no reason to assume that they will not adjust to the challenges of globalization and remain pre-eminent on the international stage. Similarly, according to Hirst and Thompson, globalization is not yet an extant reality.[22] Unlike advocates of globalization, they assert a basic continuity in international political economy. Hirst and Thompson argue that the international economy was equally integrated at the beginning of the 20th century. While satellite communication had brought markets closer together, it had not fundamentally altered their operation; and that there are few true MNCs, with most companies still operating in a small number of countries, or at most regionally.

The truth probably lies somewhere in-between these two positions. Economic liberalization and advances in communications technology facilitated the process of globalization, but operating within a global market still requires coordination of market-segmented regulatory policies. It would be an exaggeration to conclude that globalization has produced a unitary regulatory structure, despite a general trend towards economic liberalization and more relaxed entry conditions to foreign capital in many developed and developing countries.

In the global economy, the significance of non-state and societal actors has increased. Multinational corporations, for example, have become major new players and played an important part in the Uruguay Round negotiations. Alongside the growing influence of MNCs, there has been a concomitant rise in the role and influence on non-governmental organizations (NGOs) in various aspects of global trade negotiations.

Critics of Globalization

As a recent development in international political economy, globalization has its defenders and critics both in the West and in developing countries. One of the most respected and prominent defenders of globalization is Jagdish Bhagwati, Professor of Economics at Columbia University. He has always been an advocate of free trade; and globalization to him is the logical progression of free trade and is hence desirable. He is not insensitive to the possibility that globalization may create losers in the process but all systems produce winners and losers and, for Bhagwati, in the case of globalization the winners win more than what the losers lose and it is, therefore, theoretically possible for the winners to buy off, or to compensate the losers so that no one is necessarily worse off. Western critics, however, point to the following dysfunctional aspects of globalization:

- **Hollowing out:** Another term for hollowing out is deindustrialization and it was first used to explain what was happening in Japan in the late 1980s, after the Plaza Accord. Until the early 1980s, Japanese manufacturers had shown no interest in establishing production facilities off shore but started doing so following the automobiles crisis with the US and many Japanese car manufacturers established plants in the United States and later in Canada, UK and elsewhere. But the Yen shock was the major push to set up manufacturing in Southeast Asia and the region was integrated into the Japanese economy through production networks. This allowed them to maintain their export profile, remain profitable but also led to concerns within Japan of a "hollowing out" of the Japanese economy. Hollowing out implies a growing vacuum where all the manufacturing activity (the basis of industrial economies) is moved offshore to leave only a shell in the home country. Indeed, the reality is that most industrial economies that are based on manufacturing will have to shift to, and are increasingly shifting to services and knowledge-based industries. Critics of a services based economy lament that hollowing-out and deindustrialization will create economies where workers are reduced to flipping hamburgers be this is a gross simplification of the reality.
- **Race to the bottom and loss of income guarantee:** This term implies that because of global interconnectedness, success for any economy is dependent on its ability to remain globally competitive and not to have its products priced out of competition either as a result of domestic inflation, or a ballooning out of wages and the cost structure. So for every economy, it is important to keep prices in control and to remain competitive. For many companies, this has meant relocating production to cheapest practical production platforms or to countries where the cost structures are most advantageous. Today, wages are low in China, India and more of the developing countries and there is a discernible trend to relocate production facilities in these countries, leading to an export of jobs or to a lowering of wages to the levels of developing countries. The fear is that wages will be

bargained down in Australia, United States and developed countries to the level of wages in developing countries in other words a race to the bottom, that will undermine western life styles and standard of living. The reality is that jobs that have migrated overseas from developed countries are low-paid and unskilled and the question is whether this is necessarily a bad thing. Skilled professional jobs are unlikely to be relocated overseas but it is important to stay open and receptive to opportunities overseas.

- **Democratic deficit:** This is also called the democratic discontent. As a result of global market forces, governments in democratic countries are torn between demands made by the global economy and by competing demands of their own citizens. Increasingly it looks like governments want to cater to demands and imperative of global market forces rather than of their own citizens. This flies against our common assumptions that, in a democracy elected politicians are answerable only to their domestic constituents and will do whatever is demanded of them by citizens. Critics believe that under globalization, markets have become dominant and governments make policies to suit the interests of corporations and MNCs that dominate these markets. Of course, governments have always been mindful of external realities but the assertion is that, globalization has severely eroded governmental capacity to respond to popular demands, i.e. governments do not simply favour corporations over citizens but are forced to do so. In Australia, for example, a Liberal–National coalition government, deregulated workplace conditions in the early 2000s and justified these as essential to international competitiveness and global competition despite significant popular distaste for these reforms. In the 2007 federal elections this was an, important electoral issue and led to a change of government. Even if the new Labor government had a seeming mandate for a complete overhaul of workplace reforms, it chose not to abandon all the reform measures introduced by the previous government. Democracy has never been absolute but the issue is how to balance democratic demands with international imperatives, despite some expectation that elected representatives should meet the demands of their constituency rather than the needs of the global economy.

Table 1.2: Benefits of globalization.

Financial globalization	Trade globalization
Adds to domestic savings	Adds to consumer Choice
Reduces cost of capital	Lowers production costs
Technology transfer	Increases consumer welfare
"Disciplines" economic policy	Improves trade competitiveness

Theoretically speaking the globalization (liberalization) of trade and financial markets is beneficial for many reasons, stated in Table 1.2.

Among the many defenders of globalization are Biil Gates of Microsoft and Steve Jobs of Apple Computers. They equate globalization with the ICT revolution and find that new technologies have given developing countries an opportunity to access global markets and boost exports with the help of the world wide web. They see computers as one of the best tools for development in poor countries and advocate putting a computer in every home to create equality of opportunity. On a theoreotical level, Bhagwati puts forward a strong intellectual case for globalization, emphasizing that, globalization through increased trade opportunities, offers the best hope for poverty reduction in developing countries. This is because of a two-stage process where trade produces growth and growth reduces poverty. But Bhagwati also added a cautionary note that growth can lead to immiseration if export growth reduces international prices. The immiseration effect is more likely if there is excessive reliance on a single or small number of commodities and the solution to this potential trap is diversification and a broader export profile. Bhagwati argues that while government policy can help developing countries profit from globalization, bad policies may actually worsen existing conditions. Bhagwati illustrated this by comparing divergent economic performance of pre-liberalization India with that of East Asian economies, including China. The latter group of countries did well by taking advantage of trade opportunities and linking into the global economy whereas India remained relatively stagnant because it pursued isolationist practices until the early 1990s. But since economic liberalization in India, annual growth rates have been nearly comparable to that of mainland China.

A dissenting view is that of Daniel Cohen who, taking a historical perspective, pointed out that the earlier ICT revolution of railways and telegraph poles in the 19th century did not help bridge the gap between the rich and poor countries. Instead of allowing the poor people access to global markets or, in other words, dispersing wealth across countries, the ICT revolution of the 18th and 19th centuries simply concentrated wealth in a few countries, led to monopolization of production, and widened the gulf that separated the rich and poor countries. Karl Marx and others certainly thought that the spread of railways and telephone and telegraph by the colonial powers would create a levelling of economic conditions but this did not happen. It did not happen in the 19th century and may not happen in the 21st century. Indeed historical evidence shows that regardless of technological breakthroughs, the reality has been one of a widening gap between developed and developing countries. Paul Bairoch says there was rough income parity among all countries of the world in 1750 but that by 1950 the disparity was 1:8 and increased to 1:13 by 1970.

On the other hand, Mike Moore, former Director General of the World Trade Organization argues, like Bhagwati, that all systems produce winners and losers and that "the right way to alleviate the hardship of the unlucky few [is] through social safety nets and jobs retraining rather than by abandoning reforms that benefit the many". However, structural adjustment is easier said than done, as even developed countries have discovered.

Just as in the West, there are proponents and opponents of globalization in developing countries. Whether globalization is harmful or beneficial for developing countries, the reality is that they had little choice but to embrace it, because of their dependence on foreign aid and capital flows from developed countries, and multilateral agencies like the World Bank and IMF. Both these agencies have large lending programs for developing countries. Both are also heavily influenced by policies of the US government and the US Treasury that, developing countries must qualify for loans by deregulating, liberalization and privatization of their economies. This linkage among the US Treasury, World Bank and IMF in order to spread the message of liberalization is known as the Washington Consensus and has been used to force, encourage and coerce developing countries to participate in the globalization

Table 1.3: Income disparity between countries (1975 Dollars).

Year	Developing countries	Developed countries
1900	110	640
1913	120	775
1929	130	930
1952–1954	150	1360
1960	210	1780

process. Williamson coined the phrase in 1990 "to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989".[23] These policies included:

- Fiscal discipline;
- Tax reform (to lower marginal rates and broaden the tax base);
- Interest rate liberalization;
- A competitive exchange rate;
- Trade liberalization;
- Liberalization of inflows of foreign direct investment;
- Privatization;
- Deregulation (to abolish barriers to entry and exit); and
- Secure property rights.

Later, the policy measures that defined the Washington Consensus were expanded to include non-economic criteria and Danii Rodrik dubbed this the Augmented Washington Consensus,[24] which now included:

- Corporate governance;
- Anti-corruption;
- Flexible labor markets;
- "Prudent" capital-account opening;
- Independent central banks/inflation targeting;
- Social safety nets; and
- Targeted poverty reduction.

The phrase "Washington Consensus" has become a lightning rod for dissatisfaction. As the phrase's originator, John Williamson says: "Audiences the world over seem to believe that this signifies a set of neo–liberal policies that have been imposed on hapless countries by the Washington-based international financial institutions and have led them to crisis and misery. There are people who cannot utter the term without foaming at the mouth."[25]

But, as Williamson also states:

> Some of the most vociferous of today's critics of what they call the Washington Consensus, most prominently Joe Stiglitz... do not object so much to the agenda laid out above as to the neoliberalism that they interpret the term as implying. I of course never intended my term to imply policies like capital account liberalization...monetarism, supply-side economics, or a minimal state (getting the state out of welfare provision and income redistribution), which I think of as the quintessentially neoliberal ideas.[26]

Joseph Stiglitz, former Chief Economist of the World Bank and a strong critic of the Washington Consensus argues that it is time to move beyond the narrow goal of economic growth to the more expansive goal of sustainable, equitable and democratic development". His main issue with globalization is not that it is necessarily harmful to developing countries but that its practice of indiscriminate liberalization has been harmful to developing countries that do have, but not yet possess a strong and internationally viable manufacturing capacity. If liberalization happens prematurely, the nascent domestic industry is more likely than not to collapse in face of more competitive producers. This is what has happened in Mozambique in 1991–1992 when it was forced to liberalize raw cashew-nut exports by IMF. Earlier Mozambique had imposed a ban on export of raw cashew-nut in 1975 and this led to the development of a domestic cashew-nut processing industry that grew to employ about 10,000 workers. But after liberalization of raw cashew-nut exports, about 8500 workers (in 2001) had lost their jobs as the industry could not compete with foreign processors of cashew-nuts such as India and the local processing industry collapsed. The problem is premature liberalization and quick liberalization on grounds that is more

Table 1.4: Changing share in world merchandising exports (1983–1998)%.

Region	1983	1988	Change
East Asia & Pacific	5.5	10.2	+85
Latin America & Caribbean	5.6	5.2	–7
MENA	6.8	1.9	–72
South Asia	0.8	1.0	+25
SubSahara	2.8	1.4	–50

likely to be done poorly. At an aggregate level, if liberalization was meant to raise a country's level of international economic interaction, then to some extent this has happened. For instance developing countries have increased their share of world trade from 19 percent in 1971 to 29 percent in 1999. But the picture is not uniform and while some have gained, many more have fallen behind. Despite the large number of countries, in all parts of the world, that have been forced to embrace globalization, not all have been successful in increasing their share of world trade.

The problem is that many countries have globalized, i.e. liberalized their economies, and yet have not been able to increase their share of participation in the global economy or even to hold steady. This is a serious failure, because if the expectation was that by liberalizing, countries will attract foreign capital and investments, that is not necessarily what has happened. Capital flow to developing countries is largely concentrated in a few countries in East Asia and India.

Only two regions have improved their trade share in the world but according to David Dollar and Aart Kray, they have also increased their growth rates. They write that globalizers had a growth rate of 2.9 percent a year in the 1970s but 5 percent in the 1990s and those that did not globalize, had a growth rate of 3.3 percent in the 1970s but only 1.4 percent in the 1990s. The incomes of the least globalized countries during this same period, including Iran, Pakistan and North Korea, dropped or remained static. The suggestion is that the difference between a fast and slow growing developing country is its openness to trade.

In principle, Stiglitz says that globalization is neither good nor bad and that it has the power to be beneficial to developing countries. He also argues that countries that embrace it on their own terms and at their own pace do better than countries that are forced to embrace it without proper institutional foundations. This means that globalization must not precede the development of adequate institutional structures. For example, before capital market liberalization, a country should first develop a viable and strong banking sector. However, when Indonesia liberalized its banking sector in the 1990s, it had 130 domestic banks and most of them were small and weak institutions, and liberalization added to the economic and financial strains that led to the financial crisis of 1997.

For many developing countries, globalization and liberalization have allowed many firms to relocate to developing countries where environmental and safety standards are either very weak or simply non-existent. This has led to exacerbation of pollution and health crises. Hazardous products, toxic materials are being pushed on developing countries. It is estimated that 40,000 people in developing countries die of pesticide poisoning every year. Moreover, by linking into the global economy they became suppliers of raw materials to developed countries and this worsened the problem of deforestation in Latin America and Asia. Moreover, if we assume that globalization is good because it produces better growth, we also find that along with growth, there also came, greater income inequality. In China the benefit of economic globalization has been restricted to a few geographical areas along the coast and income gaps have widened. China's Gini coefficient, a measure of income inequality (0 being perfect equality and 100 being perfect inequality) rose from 28.8 in 1981 at the start of liberalization to 38.8 in 1985.[27]

Critics of globalization in developing countries argue that its practice has been selective and that there is little globalization in areas of particular interest to them like, agriculture, labor intensive manufacturing and labor mobility. For example, while capital is highly globalized, labor mobility is severely restricted. There are restrictions on labour moving across borders and critics argue that just as capital mobility benefits the developed countries which are well endowed with capital resources, labor mobility should also be increased so that globalization might benefit these poorer countries. The issue has been on international negotian agenda for a number of years but little progress has been made so far, especially because of the paranoia generated by the September 11 terrorist attacks in the United States. But to the extent that many developed countries have guest worker visa provisions for other developed countries, there is no reason why similar schemes should not be made available to all countries. Developing countries probably need such provisions even more than backpackers from developed countries.

Apart from labor mobility, developing countries have also been denied all the benefits of globalization because of the embedded practice of selective liberalization, where many of the products of interest to developing countries, such as agriculture, continue to attract high levels of protection in developed countries, particularly the United States and European Union (EU).