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Post WWII Decolonization and Economic Globalization as Affected by US Hegemony (1944-2001)

World War II disrupted the relationships between and within countries. Many countries were suffering economically because of the war. One of the outcomes of the war was decolonization as more and more states wanted sovereignty. Countries that became decolonized no longer were protected by their colonizers and had to fend for themselves. This included the need to develop. Developing countries are countries that were previously colonized. Another outcome of the war was more globalization; countries were becoming increasingly interconnected economically. The US created and used international institutions to promote its own interests. The IMF and the World Bank imposed policies of structural adjustment that were beneficial for developed countries but were harmful to developing countries. The WTO facilitated trade agreements that had negative outcomes for developing countries. The negative effects of the actions of these institutions include inequality between developed and developing countries as well as domestic inequality. The US influence in international institutions such as the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) led to negative effects for the developing countries.

International institutions were created in the interests of the US. After World War II, there was a need to stabilize the economy. Brawley notes that at the Bretton Woods talks in 1944, the 44 other countries represented “were all so weak in financial and economic terms that their views only mattered to the extent that they coincided with either the US or British perspectives” (Brawley 2005, 291). The US plan, the White Plan, was the one that was adopted. The White Plan created the IMF and the World Bank.

The IMF was created for “promoting international monetary cooperation” and “facilitating the expansion and balanced growth of international trade” (Nye and Welch 314). Each member had to contribute a quota based on the size of its economy, and the size of a country’s quota determined the weight of its vote. As Brawley notes, the US quota was more than one-third of the total quota, which meant that “in effect, the US got veto power over critical decisions” (Brawley 2005, 292). In addition, the IMF placed many conditions and restrictions on borrowing money, but there were no penalties for running surpluses. “The rules of the regime basically punished countries with serious balance of payment deficits, but did nothing to countries running large surpluses… This presumably reflected the interests of the US in the late 1940s, as the single largest country running a surplus, and also reflects the desires of economic nationalists” (Brawley 2005, 293).

Because the IMF was created based on US interests, its advice tends to fail to consider the developing countries’ circumstances. As a condition of lending money, the IMF requires governments to pursue structural adjustment policies. Structural adjustment refers to several economic policies which focus on privatization, trade liberalization, and debt reduction through decreased government spending. Many scholars have criticized the IMF’s requirement of structural readjustment, in particular trade liberalization: “little, if any, economic evidence or theory supports this, the consequences have been negative for most countries, and the main beneficiaries have been private investors in the developed world” (Milner 2005, 544). Vreeland agrees that the IMF’s policy advice has been unhelpful. “IMF programs lower economic growth and redistribute income away from the most needy; the impact of conditionality is to retard development” (Milner 2005, 545). The reason the IMF programs have been unhelpful is that “the developing countries did not have the financial or legal institutions to support such policies” (Milner 2005, 548). Stiglitz and Stone give the example of Russia. They show that “American government officials pushed the IMF to loan and continue loaning large sums to Russia, that the IMF promoted policy changes that the Russian political economy could not handle, and finally that American pressure undercut the ability of the IMF to induce Russia to reform” (Milner 549).

Another international institution was the GATT/WTO. The WTO was created in 1995 “as a result of the Uruguay round of multilateral trade negotiations (formerly known as Generalized Agreement on Tariffs and Trade [GATT], which entered force in 1948)” (Nye and Welch 315). Its goals were “Administering WTO trade agreements, providing a forum for multilateral trade negotiations, handling trade disputes, monitoring national trade policies, providing technical assistance and training to developing countries, and cooperating with other international development organizations” (Nye and Welch 315). Unlike the the IMF and the World Bank, the WTO agreements are made by consensus. However, the US still had influence in this regard because US interests - free trade - aligned with other developing countries’ interests so many countries just went along with it in a bandwagon effect.

The GATT/WTO had negative effects for developing countries. The GATT/WTO allowed developed countries to take advantage of developing countries through unfair agreements. Stiglitz articulates the argument this way: “previous rounds of trade negotiations [in the GATT/WTO] had protected the interests of the advanced industrial countries—or more accurately, special interests within those countries—without concomitant benefits for the lesser developed countries” (quoted in Milner 2005, 542). For example, “Several computable general equilibrium models have shown that the Uruguay Round results disproportionately benefit developed country gross domestic products (GDPs) compared to developing countries, and that some developing countries would actually suffer a net loss from the Uruguay Round—at least in the short run” (quoted in Milner 2005, 542).

These agreements were influenced by the US. Multinational Corporations (MNCs) and private investors have lobbied to get the US to promote their interests, and the US has then used its power as the hegemon to promote these interests through the use of international institutions. “As Bhagwati claims, “the multinationals have, through their interest-driven lobbying, helped set the rules in the world trading, intellectual property, aid and other regimes that are occasionally harmful to the interest of poor countries.” He notes that a key example of this harmful effect has been in intellectual property protection where “the pharmaceutical and software companies muscled their way into the WTO and turned it into a royalty-collection agency because the WTO can apply trade sanctions.” He goes on to describe how the industries lobbied to get their views onto the American trade policy agenda and then used the United States government to force this onto the WTO and the developing countries” (Milner 550).

Another example of an unfair trade agreement was the China-WTO agreement. Wade argues that the China-WTO agreement “makes it difficult for China to adopt one of the most powerful inequality-mitigating measures: agricultural subsidies” and that “China's agreement to give equal access to foreign companies will mean that it cannot protect "inefficient" labour-intensive industries that serve to equalise incomes” (Wade 2002). If China, a middle income country, had this many problems, then it must have been even worse for developing countries.

One of the problems developing countries faced was the competition of MNCs. The IMF policies of trade liberalization and the trade agreements facilitated by the WTO allowed MNCs to enter developing countries. The mobility of MNCs means that “MNC operations can counteract government attempts to rectify balance of payments problems” by responding “quickly and massively” when governments try to shift their exchange rates, making it difficult for governments to stabilize or hit an exchange target (Brawley 2005, 193). Developed countries can deal with this problem, but developing countries have a harder time. As Brawley explains, “Because many less economically advanced states do not have large markets or other benefits they can deny MNCs, they have a harder time exerting controls over MNCs operating within their own jurisdictions, let alone enforcing extraterritoriality” (Brawley 2005, 189).

In addition to this inequality between developed countries and developing countries, globalization causes an increase in the economic inequality within individual countries. Wade notes that “Pay inequality within countries was stable or declining from the early 1960s to 1982, then sharply increased from 1982 to the present” (Wade 2002). [expand] Globalization makes labor exploitation easier. Gruber argues that globalization “makes it easier for all employers—all employers, not just those operating within their countries’ agglomerating sectors—to reduce the wages they pay out without fear of disrupting business as usual” (Gruber 2011, 589). This is because employers can threaten to outsource or go out of business due to international competition facilitated by globalization.

An example of a country that has this problem is Mexico. As Louie states, “northern Mexico served as one of the first stations of the global assembly line tapping young women’s labor” (Louie 2001, 1099). “In 1965 the Mexican government… set up export plants… which were either the direct subsidiaries or subcontractors of transnational corporations” (Louie 2001, 1101). The working conditions were unacceptable. “Their wages averages US $30 to $50 a week for 12-hour work days, six days a week. Some workers reported having to do *veladas* [all-nighters] once or twice a week. Employees often stayed longer without pay if they did not finish high production goals” (Louie 2001, 1103). Robles says that the North American Free Trade Agreement (NAFTA), an organization created by the WTO is “reforming labor laws and our constitution to favor even more foreign investment, which is unfair against our labor rights. For example, they are now trying to take away from us free organization which was guaranteed by Mexican law. Because foreign capital is investing in Mexico and is dominating, we must have guarantees” (Louie 2001, 1103). The rise of free trade and multinational corporations, facilitated through international institutions such as the WTO and promoted by developed countries such as the US, has led to increased labor exploitation.

Globalization has had many negative effects for developing countries. We should be concerned about these negative effects because globalization has exacerbated inequality. However, there must be a reason that developing countries joined these institutions. Countries may have joined because it was better than not joining. For example, multilateral trade agreements allowed more opportunities for balancing and regulation than unilateral trade agreements. “Multilateralism ensures transparency, and provides protection—however inadequate—against the asymmetries of power and influence in the international community” (quoted in Milner 542). Outside of the institutions, countries barely have a political voice. The institutions provide the framework for cooperation between developed and developing countries. The institutions also provide consensus among developing countries, which may allow them to benefit. In contrast, the IMF and World Bank have weighted voting, which makes it easier for developed countries to take advantage of the developing countries. All three of these international institutions have problems that may need to be solved. The IMF and the World Bank in particular are in need of reform.

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