

▼ **Table 4.3:** The size of selected economies in 2014

Rank	Economy	GDP \$ bn
1	USA	17,348
2	China	10,431
5	UK	2,992
7	Brazil	2,417
9	India	2,043
10	Russia	2,030

Source: The Economist. 2017. *Pocket World in Figures*. London, UK. Profile Books.

### Activity 1

1. Describe and explain the main characteristics of a superpower.
2. Comment on the way superpower status changes over time.
3. Compare and contrast the characteristics of emerging superpowers with those of established superpowers.

## Global organizations and groups

### The G7 and the G8

The G7 (Group of Seven) is a powerful group of HICs – the USA, France, Germany, Italy, the UK, Japan and Canada – that meets annually to discuss matters such as the global economy, global governance, energy policy and international security. They were joined by Russia in 1998 to form the G8 (Group of Eight). However, Russia was suspended following its activities in Ukraine.

The G7 was initially established as a group of non-communist countries concerned about the rise in oil prices following OPEC's decision to exert greater control over the world's oil. The G7 is not a formal institution but acts in an advisory capacity. The small number of similar countries that make up the G7 should, in theory, enable decisions to be made, but critics argue that it does not follow through with its proposals and that it does not speak for any emerging economy.

Russia was admitted to the G7 when it was believed that the country would become more democratic. However, during the annual summit in 2013 the G7 leaders were keen to call for the Syrian leader Bashar al-Assad to leave office, but the Russian president declined to do so. Then, as the conflict between Ukraine and Russia escalated in 2014, the USA and EU imposed sanctions against Russia. When in July 2014 the Malaysia Airlines Flight MH17 crashed in east Ukraine, allegedly hit by anti-aircraft missiles fired by Russian-backed rebels, and killing all 298 passengers, the USA and the EU increased sanctions.

Without Russia, the G7 is able to speak unanimously. However, without Russia, the G7 represents a smaller proportion of the world's population, and without China, it cannot claim to be a truly global organization.

The G7 agenda has focused to a large extent on promoting economic recovery in Ukraine and in the EU. There are divisions among its members, with some countries wishing to impose austerity packages and others, such as the USA, preferring monetary policies to revive domestic demand and promote economic growth.

### The G20

The G20 (G-20 or Group of Twenty) is an international assembly for the governments and central bank governors from 20 major economies. It was established in 1999 to discuss policy issues related to global financial stability. The G20 includes 19 countries – Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa,



Turkey, the UK and the USA – and the EU. In addition, the G20's guests include Spain, the chair of ASEAN, two African countries, and one that is invited by the president of the G20. Several other people participate in G20 meetings, including the Chair of the IMF, the president of the World Bank, and the Chair of the Development Assistance Committee.

The G20 countries represent about 85 per cent of gross world product, 80 per cent of world trade, and about 65 per cent of the world's population. The G20's main interest is global economic governance, but it has also discussed the impacts of an ageing population, reform of the World Bank and the IMF, energy security and resource depletion. Given the nature of the countries involved, the G20 has an important bearing on global policy. It is likely that large Asian economies will play an increasingly important role in global governance in the future, on account of their population size and the size of their economies.

Following the financial crises of 2007–08, the G20 began to hold two summits a year, but since 2011 they have been held once a year. Although the G20 claims that its broad membership and high economic profile makes it legitimate, some critics question this, arguing that Africa is under-represented. Some 173 countries, many of them with large economies, are not represented in the G20. Norway is not represented, either by the EU or in its own right.

## The OECD

After the Second World War, the Organization for European Economic Cooperation (OEEC) was established to run the US-financed Marshall Plan for the reconstruction of Europe. It recognized the need for cooperation between countries and their interdependence. In 1960 Canada and the USA joined the OEEC members to form the Organization for Economic Cooperation and Development (OECD). Other countries joined, and today the OECD has 35 members. The OECD aims to identify, analyse and discuss problems, and find policies to solve them. It provides a forum for countries to share experiences and to seek solutions for common problems. Its stated aim is to help countries around the world to:

- restore confidence in markets and the institutions that make them function
- re-establish healthy public finances as a basis for future sustainable growth
- foster and support new sources of growth through innovation, environmentally friendly "green growth" strategies and the development of emerging economies
- ensure that people of all ages can develop the skills to work productively and satisfyingly in the jobs of tomorrow.

(Source: <http://www.oecd.org/about/>)

The OECD also works with other global institutions such as the UN Food and Agriculture Organization (FAO), the IMF, the World Bank, the International Labour Organization and the G20.



▲ Figure 4.5: The OECD logo

### Activity 2

1. Study the list of countries in the OECD. Comment on the membership of the OECD.
2. Suggest one other country that should be a member of the OECD. Justify your choice.
3. Visit the OECD page on social and welfare issues, <http://www.oecd.org/social/inequality-and-poverty.htm>. Investigate some of the issues there (gender equality and development, families and children, poverty reduction and social development, income inequality and poverty). Make a brief presentation of your findings.



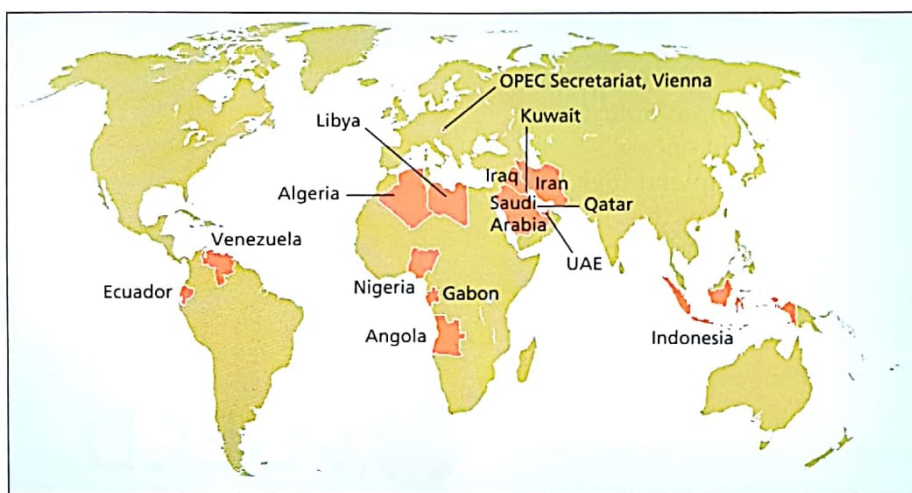
▼ **Table 4.4:** Members of the OECD

Australia	France	Korea, South	Slovak Republic
Austria	Germany	Latvia	Slovenia
Belgium	Greece	Luxembourg	Spain
Canada	Hungary	Mexico	Sweden
Chile	Iceland	Netherlands	Switzerland
Czech Republic	Ireland	New Zealand	Turkey
Denmark	Israel	Norway	United Kingdom
Estonia	Italy	Poland	USA
Finland	Japan	Portugal	

## OPEC – an oil cartel

The Organization of Petroleum Exporting Countries (OPEC) was established in 1960 to counter oil price cuts by American and European oil companies. Founder nations included Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Qatar, Indonesia and Libya joined in 1962 and the United Arab Emirates, Algeria, Nigeria, Ecuador and Gabon joined later. In 1979 the OPEC countries produced 65 per cent of world petroleum, but only 36 per cent by 2007. As early as 2003, concerns that OPEC members had little excess pumping capacity sparked speculation that their influence on crude oil prices would begin to slip. However, revenues from oil have allowed member countries to invest in and diversify their economies, generating wealth since the 1970s.

From a Western perspective, the development of OPEC and the control of oil has had important implications. As OPEC controlled the price of oil and much of the



▲ **Figure 4.6:** OPEC members

### ATL Research skills

To find out about the state of the world's oil reserves, demand levels and trends in the world economy, visit the OPEC home page at [www.opec.org](http://www.opec.org), where there is a monthly oil market report.

production in the 1970s and 1980s, Middle Eastern countries gained economic and political power. All world regions became increasingly dependent on the Middle East. Arguably, this has provided an incentive for the old industrialized countries to increase energy conservation or develop alternative forms of energy.

The importance of oil means that countries need to maintain favourable relationships with OPEC countries and that the Middle East will be involved in economic cooperation and development with industrialized countries. It also means that there needs to be political stability in the Middle East and a need to reassess coal and nuclear power as energy options.

## Global lending institutions

### The World Bank

The World Bank, established in 1944, is a source of financial and technical assistance to developing countries around the world. Its mission is to fight poverty by providing resources, sharing knowledge and building capacity. It is made up of two unique development institutions owned by 186 member countries: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

The World Bank has its headquarters in Washington DC. It has more than 10,000 employees and over 100 offices worldwide.

Until 1967 the bank's original purpose was the reconstruction of post-war Europe, and it undertook a relatively low level of lending. From 1968 to 1980 the bank began to focus on the needs of the developing world and greatly increased the size and number of its loans. Bank policy shifted towards measures such as building schools and hospitals, improving literacy, and agricultural reform.

The period 1980–89 was dominated by lending to service third world debt. Structural adjustment policies (SAPs) aimed at streamlining the economies of developing nations were a large part of World Bank policy during this period.

Since 1989 World Bank policy has changed again, and its current focus is on the achievement of the Millennium Development Goals (MDGs), lending primarily to middle-income countries (MICs). The Bank's mission is to aid these countries and their inhabitants to achieve development and reduce poverty. This includes achievement of the MDGs, by helping countries develop an environment for investment, jobs and sustainable growth, thus promoting growth through investment and enabling the poor to share the fruits of that growth.

### Critics of the World Bank

Non-governmental organizations and academics have long criticized the World Bank, claiming that its free-market reform policies are harmful to economic development. In *Masters of Illusion: The World Bank and the Poverty of Nations* (1996), Catherine Caufield argues that Western practices are adopted and traditional economic structures and values ignored or abandoned. A second contested assumption is that poor countries cannot modernize without money and advice from abroad.

Another criticism of the World Bank is the way in which it is governed. Although the World Bank represents 186 countries, it is run by a small number of rich countries. In addition, the World Bank has dual roles that are contradictory: that of a political organization and that of a practical organization. As a political organization, the World Bank must meet the demands of donor and borrowing governments. As a practical organization, it must be neutral, specializing in development aid, technical assistance and loans. Moreover, it focuses too much on the growth of GDP and not enough on living standards.

Some analyses show that the World Bank has increased poverty and been detrimental to the environment, public health and cultural diversity. It has also been suggested that the World Bank is an instrument for the promotion of US or Western interests in certain regions of the world.

One of the most significant criticisms of the World Bank has been the effect of structural adjustment programmes (SAPs) (see page 537).

### The International Monetary Fund

The International Monetary Fund (IMF) is the international organization that oversees the global financial system by following the economic policies of its member countries, in particular those with an impact on



#### Extension work

Visit <http://www.worldbank.org/en/news/press-release/2015/10/15/world-bank-new-end-poverty-toll-surveys-in-poorest-countries> to see how conducting surveys in the world's poorest countries will help monitor ending poverty by 2030.





▲ Figure 4.7: The IMF logo

the exchange rate and the balance of payments. It is an organization formed with a stated objective of stabilizing international exchange rates and facilitating development.

The IMF was created in July 1944 with 45 members, and it now has 186 members. Countries contributed to a funding pool, which other countries with payment imbalances could borrow from on a temporary basis. The IMF was important when it was first created because it helped the world stabilize the economic system. The IMF's influence in the global economy steadily increased as it accumulated more members.

To deal with the 2008 global financial crisis, the IMF agreed to sell some of its gold reserves. In addition, in 2009 at the G20 London Summit it was decided that the IMF would require additional financial resources to meet the prospective needs of its member countries during the ongoing crisis. The G20 leaders pledged to increase the IMF's supplemental cash tenfold to \$500 billion, and to allocate to member countries another \$250 billion via Special Drawing Rights.

Member states with balance of payment problems may request loans to help fill gaps between what they earn and/or are able to borrow from other official lenders and what they must spend to operate. In return, countries must usually launch certain reforms such as SAPs.

### Critics of the IMF

Critics claim that IMF policymakers supported military dictators friendly to American and European corporations, and that the IMF is generally unconcerned about democracy, human rights and labour rights.

One of the main SAP conditions placed on troubled countries is that the governments sell as much of their national assets as they can, normally to western corporations at heavily discounted prices. Moreover, the IMF sometimes advocates "austerity programmes" – increasing taxes even when the economy is weak – in order to generate government revenue. There is also often a considerable delay in the IMF's response to crises, and it tends only to respond to them (or even create them) rather than prevent them.

The IMF is for the most part controlled by the major Western nations. Historically, the IMF's managing director has been European and the president of the World Bank has been from the USA.



▲ Figure 4.8: The New Development Bank logo

### The New Development Bank

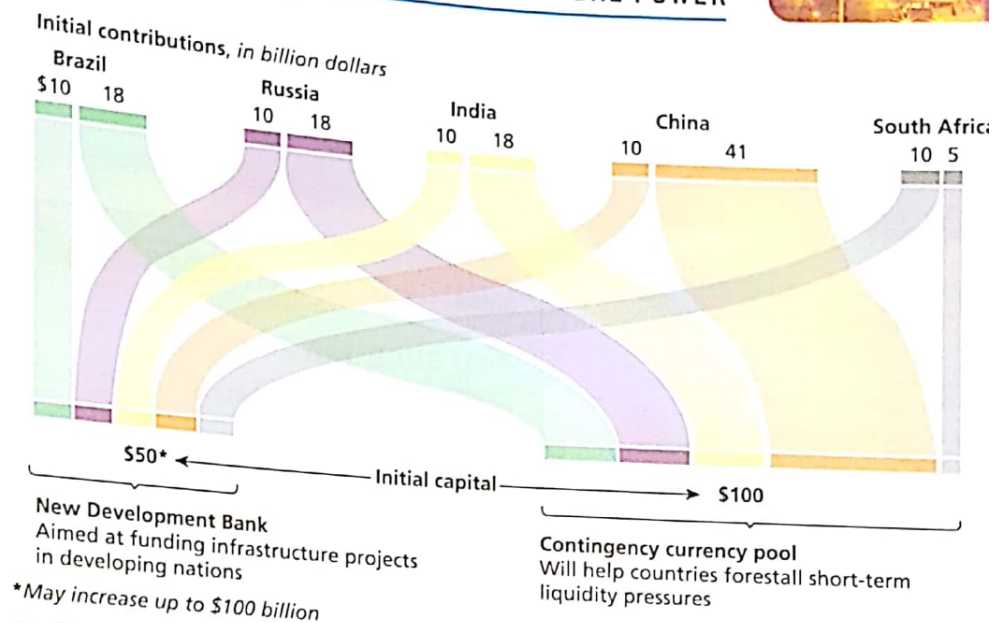
The New Development Bank (NDB), formerly the BRICS Development Bank, was established by Brazil, Russia, India, China and South Africa in 2014. The NDB "shall support public or private projects through loans, guarantees, equity participation and other financial instruments". The bank has its headquarters in Shanghai.

Its main focus for lending will be infrastructure and sustainable development projects, such as clean energy. Brazil, Russia, India, China and South Africa initially contributed \$10 billion to the fund (Figure 4.9). The bank plans initially to fund one project from each member.





New members are permitted to join, but the BRICS countries must always account for not less than 55 per cent of the shares. The bank represents an important step in cooperation among the BRICS. It will complement the assistance given by multilateral development banks, such as the World Bank. According to the NDB, although multilateral banks provide up to \$100 billion/year, this is insufficient to meet the infrastructural development needs of emerging economies.



▲ Figure 4.9: Funding for the New Development Bank

### Check your understanding

1. Outline the main components of the KOF Index.
2. In what ways does the New Globalization Index differ from other globalization indices?
3. Suggest why the UK declined as a superpower after the Second World War.
4. Comment on the importance to the USA of the military-industrial complex.
5. Compare the size of the defence industry in the USA, China and Russia.
6. Outline the main strengths and weaknesses of the G7 countries.
7. Explain what is meant by the term "cartel".
8. Suggest how OPEC influences energy policies.
9. Briefly explain two advantages and two disadvantages of the IMF.
10. Describe the sources of funding for the New Development Bank.

### Concepts in context

Global **power** and influences vary spatially. This varies from the global scale to the regional and national level. Power and influence also vary over time – some superpowers and empires have declined over time. There are many groupings

of countries, for example G7, G20, as well as international organizations such as the World Bank and the International Monetary Fund that wield considerable influence – not always to everyone's approval.

### Synthesis and evaluation

There are many wealthy and powerful places around the world. Some of these are large and some are very small. Some smaller states are forced to interact with more countries because they do not have a varied range of resources. In contrast, some large countries may have a more varied resource base and may be less globalized. Over time, the importance of nations varies. Superpowers develop and wane. Some superpowers may be a collection of countries,

which do not necessarily have to be geographical neighbours.

A number of international organizations, including banks, cartels and advisory forums, are shaping the economic and political development of many places. There has been criticism that sometimes these organizations are following an agenda that suits only themselves. The use of tables and proportional symbols is a useful way to show variations in size/importance.