The end of the first Gulf War was an important signpost of the major transformation in the global economy that was to ensue over the next decade. George H. W. Bush’s proclamation of a New World Order was an initial acknowledgment of this shift, and although it took a number of years to fully develop, by the beginning of the twenty-first century the United States would have achieved the position of global “hyper-power.” The collapse of the state socialist bloc and China’s opening to the world market during the 1990s meant that a single global capitalist economy was brought into existence. The key feature of this new phase of internationalization was a further qualitative leap in the importance of finance to the functioning of capitalism and, simultaneously, the construction of a world market based upon fully global manufacturing and distribution chains. Both tendencies had enormous implications for the GCC and helped to underpin the rise of Khaleeji Capital at the onset of the twenty-first century.

The economic origins of the new phase of internationalization were found in neoliberalism’s triumphant spread across the world during the previous two decades. As Chapter 2 explained, neoliberalism laid the basis for a substantial increase in financial flows and the emergence of complicated production chains interlocked through cross-border ownership structures. A major role in this was played by Third World debt, which—facilitated by the oil price rises of the 1970s and the concomitant flows of Gulf petrodollars through newly created financial markets—firmly linked poorer countries into the global financial circuits. Neoliberalism’s anointment as the accepted economic wisdom throughout the 1980s and 1990s compelled all national economies to open their borders to these financial flows, tying their accumulation patterns to the broader reproduction of the global economy.
A significant step in this process occurred during the late 1980s, when several major debtor countries (notably Chile and Mexico) adopted debt-for-equity plans as part of restructuring debt repayment schedules with commercial banks. These debt-for-equity plans allowed lenders to swap the money they were owed by the debtor country for a stake in a privatized company or asset. At the same time, a World Bank affiliate, The International Finance Corporation (IFC), was developing a theoretical argument that the massive problems faced by the South could be solved if these countries “deepened” their financial markets. The IFC argued that countries in the South should set up stock markets, open up domestic companies to foreign ownership, and offer corporate bonds to private investors in order to mobilize domestic savings and attract surplus capital from around the world. In 1987, the IFC launched an “Emerging Markets Index” and began investing in these markets through a fund of large institutional investors. This change in nomenclature confirmed how the South had been transformed from debt-ridden “problem” into a new investment opportunity.

Under the banner of “financial deepening,” countries in the South began to sell sovereign debt on global financial markets to private investors rather than relying on direct loans from governments, commercial banks, or multilateral institutions as had occurred in the past. However, in order for a country to attractively market its debt in this way to foreign investors, it needed to tout its achievements in implementing Structural Adjustment Programs and other neoliberal measures. Forced to attract foreign flows, poorer countries competed among themselves to offer prospective investors enticements such as 100 percent ownership rights and tax-free repatriation of profits. Foreign private capital snapped up privatized assets, bought up shares, and speculated in newly securitized Third World debt. Ever more reliant upon these external capital flows, the deepening of financial markets provoked a self-reinforcing cycle in which greater amounts were needed to cover ballooning private and public debt levels.

Although it took a couple of decades to fully develop, these new financial markets were a pivotal element in the new phase of internationalization. Trillions of dollars of private capital flows moved across the globe, taking ownership shares in assets across every country. One illustration of this shift is shown by the growth in “emerging market” funds: in 1970, according to the World Bank, foreign investment in “emerging country” stock markets was zero. In 1985 it reached US$100 million. By 1994, over US$39.5 billion was invested in “emerging markets” (Henderson 1998, p. 16). By 1999, over 1,000 “emerging markets” funds were operating in the United States alone (Sidaway and Pryke 2000, p. 194).